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VA HOME LOAN GUARANTY PROGRAM

TUESDAY, MARCH 23, 1982

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS,
COMMITTEE ON VETERAN'S AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m. in room 334 of the Cannon House Office Building, Hon. Marvin Leath (chairman of the subcommittee) presiding.

Present: Representatives Leath, McEwen, Mottl, Dunn, Sawyer, and Mica.

Mr. **LEATH**. The subcommittee will come to order.

We meet this morning to review the Veterans' Administration home loan guaranty program.

This committee continues to believe in the soundness of the home loan guaranty program. We think it was well conceived and is well managed, and we are proud of it.

For several years now, we have been deeply concerned about the decline in its activity. For this decline in activity means that our veterans, particularly our young Vietnam veterans, are not getting to own the homes they need and deserve.

While it is obvious that high interest rates are to blame, we are obligated to consider every alternative that will alleviate the problem. I hope that our discussions this morning will help in improving the situation.

Today we have eight witnesses. Some prospective witnesses have submitted statements and, without objection, they will be entered into the record.

We are delighted this morning to have two of our colleagues—but I only see one here—to discuss some things of interest to them.

So, at this time, we recognize the gentleman from Florida, Mr. Bennett.

Mr. Chairman, I ask you to come forward and also Mr. Paul Hazlett whom I understand is with you.

STATEMENT OF HON. CHARLES E. BENNETT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. **BENNETT**. Thank you very much, Mr. Chairman. Shall I commence?

Mr. **LEATH**. Yes, sir. We are just delighted to have you. Your record of concern for this Nation's defense, Mr. Chairman, is well documented by a long and outstanding record in this Congress. We are delighted to have you here this morning.

Mr. Bennett. Thank you very much for this opportunity. I am very grateful to have been allowed the opportunity to appear before your distinguished subcommittee today.

I am here to protest the proposed relocation of the Florida Veterans' Administration Loan Guaranty Division Office from Jacksonville to St. Petersburg.

I strongly oppose this proposed move and have introduced a bill, H.R. 5702, which would prohibit the relocation. Mr. Chairman, I would first like to offer a brief statement in support of my position and then introduce Mr. Paul Hazlett, an independent business consultant who will make a short statement in regard to the studies completed on the proposed relocation, which shows the move will not be cost effective as the Veterans' Administration has claimed.

I am opposed to the proposed relocation for several reasons. The Florida VA Loan Guaranty Division Office has been located in Jacksonville since 1946 when I was away at war as many of us here in this room were. It was originally located in St. Petersburg and was relocated to Jacksonville because it was concluded that in Jacksonville the office could function best and most efficiently. It was concluded that it could function best in Jacksonville because Jacksonville was where the major mortgage banking firms were located.

Even to this day, the major mortgage banking firms in Florida are located in Jacksonville. In fact the two largest firms and four of the top eight agencies are located in Jacksonville as the following list shows. I will list the top two. Stockton, Whatley and Davin, $2.551 billion. Charter Mortgage, $1.856 billion. The two top ones and many of the others are from Jacksonville, by far the preponderance of this type of activity.

It is significant that none of these firms operate in St. Petersburg. The mortgage banking firms in Jacksonville have indicated to me their great respect for the Jacksonville VA Loan Guaranty Office and its reputation for professionalism, efficiency, and responsiveness to the needs of the veterans and active duty personnel in the State of Florida.

Mortgage banking firms in Jacksonville strongly opposed the proposed move and consider it would be detrimental to their ability to delivery prompt, efficient services to the citizens of Florida seeking a VA loan guarantee financing and people throughout the State have also submitted statements of that type.

Incidentally, with the permission of the committee I would like to submit an appendix, selected correspondence from throughout the State and otherwise in support of this.

Mr. Leath. Without objection.

[The information appears on page 24.]

Mr. Bennett. Thank you. The proposed relocation will also have a detrimental impact on my constituents in another manner. Specifically Federal employees, including 131 members of the National Federation of Federal Employees, will lose their source of livelihood in Jacksonville. Those who decide they will relocate will have to move to St. Petersburg, and experience all of the economic hardship that goes along with relocation in these high interest rate times.

Finally, there is a current effort underway to study a more comprehensive reorganization of VA offices nationwide. I firmly believe that before this study is concluded no major relocation costing in excess of $1 million such as the proposed move from Jacksonville should be undertaken.

Mr. Chairman, at a time when this Congress is considering ways to assist the depressed housing industry I certainly don't think the relocation of a VA loan guaranty office which has proven to be highly effective in such matters is going to help anyone. My constituents and I strongly oppose the relocation which we believe will be detrimental to the citizens of Florida.

Thank you very much for the opportunity to present my views to your distinguished subcommittee. I would like to yield to Mr. Paul Hazlett from Jacksonville who is an independent business consultant and who has conducted an in-depth analysis of the proposed move. He has unselfishly given of his time to fly up here and give this distinguished subcommittee the benefit of his expertise.

STATEMENT OF PAUL HAZLETT, INDEPENDENT BUSINESS CONSULTANT, JACKSONVILLE, FLA.

Mr. **Hazlett**. Thank you, Mr. Chairman, for giving me the opportunity to appear before your distinguished subcommittee today.

In considering the relocation of the Jacksonville Loan Guaranty Division Office to St. Petersburg, the study by the regional office compiled a set of facts. It is not those facts that we question, but rather their analysis and interpretation.

I would like to take a moment to look at some of the costs and benefits alleged in the report. First of all, the assumption that it will improve the level of service. The report alleges that the relocation will improve the services of the Guaranteed Loan Division, but the report only addressed itself to the demand side and does not consider the supply of services to the veteran.

Almost all home guarantees are originated through mortgage bankers, the largest of which have had offices in Jacksonville. While a great deal of emphasis is placed upon the veterans' commuting distance in the report this is totally irrelevant as the mortgage bankers, not the veteran, must commute to the loan guaranty division. Mortgage bankers need face-to-face communication, in many cases to provide adequate service. Further, the loss of the 57 percent of trained technical staff who have indicated that they will not move will create additional massive disruptions in service to the veterans. Therefore, the relocation of the office could seriously impair the supply of services to the veteran.

Further, the report attempts to obscure demand for loan guarantees. The following items are illustrated. Duval and Clay Counties presently lead in usage of benefits and services. The report alleges that this is because of the location of the office without considering any other factors. Given that most loans are originated in the private sector it would appear that other factors have a substantial influence. Expanded service to other areas will not therefore necessarily result from relocating the office. Another item. The report never aggravates Duval County as it does others in the State. Another one, Duval and Clay County and probably Nassau County in the future are high-growth areas in terms of eligible population. Naval bases in this area are scheduled to receive substantial increases in their manpower contingents. This potential growth is not accounted for in the growth. It can be seen from the above analysis that the report provides no evidence of improved service due to relocation to St. Petersburg.

As concerns some of the annual cost savings, first of all, concerning savings on staffing, obscurely presented in the report is the fact that the office is presently processing one-third of the past levels of loan applications due to the present condition of the housing industry. It is clear therefore that the 27 employee reduction relates to reduced workload. This benefit can be achieved through layoffs or attrition without the expense of relocation.

A counter argument can be presented that fluctuations in the workload could be smoothed in the regional office. This assumes however that either the regional office which has a stable workload is overstaffed at present, or that services in other areas will be reduced to accommodate the fluctuating workload in the loan guarantee division.

If the level of services is reduced in the other areas, the cost of the reduced level of services is not included. If the other areas are presently overstaffed, their higher utilization does not represent the benefit of relocating the loan guaranty division since this benefit could be achieved without relocating the office by reducing the regional office staffing level.

Thus, any benefits from staff reduction do not result specifically from relocation of the loan guarantee division. The report contains a number of calculations which misrepresent any possible savings in space utilization due to relocation of the loan guarantee division for the following reasons.

The calculations do not fully charge the space to be used by the loan guaranty division if it is relocated to St. Petersburg. Also, the decision as to relocating remote space in St. Petersburg is independent of any decision to relocate the loan guaranty division and therefore cannot be included in the benefits. Further, it is unreasonable to believe that an 18-percent reduction in staff will produce a 36-percent reduction in space used. The true savings in space utilized range between a saving of $72,100 and an additional cost of $33,700. I will submit the calculations backing that up. The regional office estimates the cost of the move to be $983,210 related only to relocation. Neither the cost of financing the move nor loss of productivity are included in this estimate.

Given a current cost of approximately 14 percent to finance the Federal debt, and accepting the regional offices estimate of relocation expense, the costs of the financing of the move will be $137,650 per year. We will not attempt to estimate the cost of lower productivity. However a survey of employees found 57 percent of the trained technical staff unwilling to relocate. Losses of technical staff of that order of magnitude will disrupt operations for years.

As an aside, of the estimated $983,210 total relocation cost, $801,000 is allocated to translocation of employees. This amounts to about $16,000 per employee relocated. Merrill Lynch figures the cost of relocating one employee for a typical organization at approximately $35,000. This would make transportation expense

$1,750,000 and total relocation cost $1,932,000, further impairing the case for relocation.

Putting all this together now, we will not contest the alleged teletype, telephone, and employee travel savings. However, 91 percent of the alleged benefits in the report relate to savings on staff and space. Those are very much contested. No savings on staff are attributable to the relocation while the proposed savings on space are fallacious. Taking into account these revised savings figures and the cost of financing the move, the estimated annual net costs of this relocation range between $12,000 and $117,900, copies of which calculations I will submit.

These figures do not include the cost of performing the relocation or loss of productivity. Cost of the relocation alone is approximately $1 million according to the VA office. This relocation can be justified neither on the basis of improved service to the veteran nor savings to the Government. In fact, it will cost the Government money on an annual basis.

I feel a detailed sutdy by GAO or OMB is required before this major expense is incurred. Thank you very much, Mr. Chairman.

Mr. LEATH. Thank you, Mr. Hazlett.

Mr. Bennett, do you have any more comments you would like to make?

Mr. BENNETT. No, thank you very much.

[The prepared statement of Congressman Bennett appears on p. 23.]

Mr. LEATH. We appreciate very much both of you gentlemen being here. We certainly will put anything else in the record that you have there Mr. Hazlett.

Mr. HAZLETT. Thank you very much, sir.

Mr. LEATH. I would like to recognize another colleague from Florida, Mr. Young, whom I suspect may have a different point of view.

STATEMENT OF HON. C. W. (BILL) YOUNG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. YOUNG. Thank you, Mr. Chairman.

Mr. LEATH. Happy to welcome you here this morning, Bill.

Mr. YOUNG. Thank you very much, Mr. Chairman.

I appreciate your time this morning to hear my viewpoints on this issue, as well as my friend and colleague from Jacksonville, Mr. Bennett, with whom I have very few differences, but we may have a slight disagreement in this particular case.

I would like to say that my testimony today, Mr. Chairman, hopefully will be very consistent with policies established about 2 years ago when the former administration, determined that it would be cost-effective to move the FHA loan insurance office from Tampa to Jacksonville. I will have to admit several of us in Congress who represent that part of the State had similar concerns expressed already here this morning. We didn't like the idea we were going to lose any kind of facility, let alone a Federal facility. But, in meeting with the administration it was determined that their figures were rather accurate. They felt they could save considerable amounts of money by making that move from Tampa to Jacksonville. They assured us service in our area would not be diminished and we removed our objections. And it has proven that the move has been cost-effective and that frankly, our service has not been affected adversely.

Now, I have the privilege, Mr. Chairman, of serving on the Appropriations Subcommittee which appropriates funds for the Veterans' Administration, the other side of the House, so to speak, from your committee. During our hearings last week on this subject, I inquired of the Veterans' Administration witnesses very thoroughly as to what effect this would in fact have on the Duvall County area and the city of Jacksonville.

Would their service be diminished? I was assured it would not, because I would not be supportive of a move that would create an adverse situation in any part of the State of Florida. Having been convinced that the service to the folks in the Jacksonville area would be continued, I then decided to determine whether the administration figures would be accurate. I heard your previous witness suggest that the GAO should make a study and determine the actual facts. I agree with that. In fact the GAO is doing just that right now. They have been in Florida investigating the figures as proposed by the Veterans' Administration to determine where we stand.

I would be hopeful that that will make the decision, whether it is going to be cost-effective to make this move, whether or not the service is going to be improved or diminished in the area of Jacksonville and the area of the Tampa Bay area to which this facility would be moved.

Having gone through this question of demographics some years ago during the consideration of the construction of a new hospital for the veterans at Bay Pines, Fla. I am very familiar with the demographics. I know that the center of the veteran population in the State of Florida is in the Tampa Bay area. That is why the Bay Pines Hospital was scheduled for reconstruction, and I am happy to report that that construction is nearly finished. But we know in the Dade County area some 16 percent of Florida's veterans reside. We know also that in the Hillsboro County area, Tampa, another 8 percent of the State's veterans reside. In Pinellas County, St. Petersburg being the largest city, another 8 percent of the veterans of Florida reside.

In Jacksonville, in the far northeast corner of the State, another 8 percent of the veterans reside. With the regional office being in St. Petersburg and for a good reason, I think it is only appropriate that this branch office of the loan insuring office also be located there with the regional office.

As I say, we are prepared to have an accurate accounting of the figures. We are prepared to have a decision made based on whether or not it is going to be cost effective to make that move. I think the reason we are prepared to be that gracious is because we are convinced that the figures are accurate. I have gone over these figures, not only with the VA office here but with the Director of the VA regional office in St. Petersburg and I believe they have done a fairly good job.

Now GAO is going to make a determination and they will be reporting both to your committee and to the committee on which I serve. Mr. Chairman, I would like to, if I may, submit an additional written statement for your record.[1] I would also like to submit a copy of the special study if you don't already have it, that was made by the Veterans' Administration regional office in St. Petersburg.[2] I would also like to include in the record a letter addressed to me from the Veterans' Administration central office here in Washington relating to the subject.[3]

If you have no objection, I would like to have that become part of my testimony.

Mr. LEATH. Without objection.

Mr. YOUNG. Unless you have further questions for me, Mr. Chairman, that would terminate my testimony.

Mr. LEATH. Mr. Young, we are delighted to have you here this morning to present, with Chairman Bennett, your record of concern for the defense of this country and for the veterans of this country. It is well documented. I am delighted GAO is looking at this, and we will look forward to their report. We appreciate your being here and we will include all the material you requested in the record.

Mr. YOUNG. Mr. Chairman, thank you very much.

Mr. LEATH. Because we do have many witnesses this morning, we would ask that the witnesses summarize their testimony this morning. Your complete testimony will be printed in the record.

Our next witness has appeared before the committee many times, always does an outstanding job. We welcome the Director of the Loan Guaranty Service, Mr. Al Glass.

STATEMENT OF ALBERT W. GLASS, DIRECTOR, LOAN GUARANTY SERVICE, VETERANS' ADMINISTRATION, ACCOMPANIED BY ROBERT M. O'TOOLE, DEPUTY DIRECTOR, LOAN GUARANTY SERVICE; AND JAMES P. KANE, ASSISTANT GENERAL COUNSEL

Mr. GLASS. Thank you, Mr. Chairman.

Mr. Chairman, members of the subcommittee, it is a pleasure to have the opportunity to appear before you and discuss the operation of the VA housing program. I have with me today Robert M. O'Toole, Deputy Director, Loan Guaranty Service, and James P. Kane, Assistant General Counsel.

Mr. Chairman, the high interest rates which have prevailed for over 2 years have caused a significant reduction in the number of veterans who are making use of their VA home loan benefits to purchase homes for themselves and their families. These high rates, along with the increased cost of housing in general, have put homeownership out of reach for many veterans. This is exhibited by the fact that in the first 2 years of the 1980's, only 213,000 loans were guaranteed compared to an average annual volume in the 1970's of 322,000.

This volume and the fact that the activity is so low reflects the fact that VA home loan activity is governed primarily by the cost and availability of mortgage money for investment purposes. I will not go into the numerical details of the activity. Mr. Chairman, the high interest rates and lower economic activity we have experienced in the last several months have caused a considerable increase in the number of defaults by veterans who have previously obtained loans.

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[1] See p. 31.
[2] See p. 34.
[3] See p. 32.

We continue to make every effort to assist the veterans to retain their homes, and lenders do likewise. While the number of defaults increased to about 150,000, still the number of claims filed have been held to around 14,000. While this is an increase over the 11,000 to 12,000 we have previously experienced, which would be normal, we do not feel that, hopefully, it will go much higher. I realize the activity is a disappointment to this committee which has for so many years improved the opportunity for veterans to acquire home loans. I can assure you the program is sound and the underlying legislation is adequate to serve veterans. I should point out with respect to this, Mr. Chairman, that this committee was responsible for the enactment of legislation which removed the delimiting dates for all veterans. Thus their entitlement is good until used. While many veterans have had to postpone homeownership because of high interest rates, they will still have the future opportunity as we expect rates to come down in the future.

Mr. Chairman, we have implemented the graduated payment mortgage which the committee passed and was enacted last year. That plan permits veterans to qualify at a lower initial payment the first few years. As a rule of thumb, the payment would be about 80 percent of what it would be on a regular amortization. Thus, we qualify the veteran from an income standpoint on that basis. The Administrator has signed off on regulations which should be published very shortly to permit a 2½-percent downpayment on graduated payment mortgages, on new construction. This implements the provision of the legislation which permits the loan amount to exceed the original reasonable value of the property by 2½ percent per year. This is in order to minimize the downpayment requirements which would otherwise be required on a graduated payment mortgage. So, this would be a great help for veterans buying new homes in the future.

Mr. Chairman, this concludes the summary of my statement. I will be pleased to answer any of your questions.

Mr. LEATH. Thank you, Mr. Glass. I do have some questions for you. Before I get into that I want to recognize my good friend and colleague from Michigan, Mr. Sawyer, who had a meeting a little bit earlier and couldn't get here quite at 9:30, for any comments he might have at this point.

Mr. SAWYER. Well, thank you, Mr. Chairman. Do you blame interest rates primarily for the dropoff in activity on loans?

Mr. GLASS. Yes, sir.

Mr. SAWYER. About where do you think interest rates would have to decline to before it would have a significant impact?

Mr. GLASS. Mr. Congressman, many people have expressed opinions as to where activity may increase. Of course, all of us would hope it would drop below the double digit where we are sure it would increase. But we did have fairly good activity at the 11.5-percent rate. So, somewhere between 11.5 and 12 in these times, we would possibly see a fairly significant increase in activity.

Mr. **Sawyer**. I understand you offer assistance to veterans who default on their mortgages?

Mr. **Glass**. Yes.

Mr. **Sawyer**. Do you have some way of advising them of that, or do they know that assistance is available?

Mr. **Glass**. Yes, sir. Immediately on receipt of a notice of default from the lender, we send a computerized letter to the veteran offering the assistance, giving him a phone number and name of a person in our regional office to call.

So, he is on notice that we are there to try to help him. If he doesn't contact us and the default gets more serious, we try everything we can to contact the veteran.

Mr. **Sawyer**. That is all.

Mr. **Leath**. Besides the graduated payment, there are other types of mortgages which have been developed as we have gone through this interest rate crunch. Variable rate mortgage, for example, do you believe that the VA will need to guarantee this type of mortgage in the future, and so that more veterans can obtain home loans?

Mr. **Glass**. The 30-year fixed rate mortgage, Mr. Chairman, is still alive. As long as we have GNMA-backed securities, it will remain alive. I certainly do think, though, that if the variable rate, particularly, which may be offered by a savings and loan, becomes a predominant instrument in the marketplace, VA would have to move in that direction.

Mr. **Leath**. In that connection, it is my understanding the administration's 1983 budget recommends limits for credit on GNMA backed securities. Since mortgage bankers of the past have originated at least 70 percent of all the VA loans, how will this credit restriction affect the availability of funds of VA loans? In other words, could not this proposal reduce greatly the loan activity further than it is now?

Mr. **Glass**. Mr. Chairman, as I understand the amount of the limitation proposed for fiscal year 1983, it should be adequate to take care of the volume we anticipate in VA loans for fiscal year 1983. Of course, if GNMA activity were to be curtailed suddenly before there is any substitute investment in mortgages, by S. & L.'s, pension funds, and so forth, it would have a rather serious effect on the VA.

Mr. **Leath**. Excuse me. But you don't think their recommendation will cause that to happen?

Mr. **Glass**. Not at the present level that is proposed.

Mr. **Leath**. Mr. McEwen, do you have any questions?

Mr. **McEwen**. Yes, Mr. Chairman.

Mr. Glass, I observe in your testimony on page 5 that you have implemented the provision for graduated payments. It says the first 5 years at 7.5 percent increase in the monthly level; then it levels off after 5 years. In the legislation that we passed last year giving authority for such a variable rate mortgage, were there any specific guidelines, or who decided that we would just have the variable rate in the first 5 years?

Mr. **Glass**. This plan that initially was implemented, the 5-year graduated payment, was the one that had been utilized by FHA for a number of years. FHA had several other plans graduating up to

10 years, and so forth. But the plan that was acceptable in the marketplace was the one for the 5-year graduation which produces a 7.5-percent increase in the payments per year.

Mr. McEwen. Do you feel that is satisfactory, an annual increase like that in the first 5 years? Perhaps I am not clear in my own mind of the distinction between a variable rate mortgage and a graudated payment.

Mr. Glass. In a graduated payment mortgage, let's say today's interest rate is 15.5. That interest rate remains the same throughout the 30-year term of that loan. The factor that makes the payments lower initially is the fact that the veteran does not pay all of the interest due in the first few years.

The unpaid interest is added to the principal. Thus, his payments are lower in the first several years. After the graduation period is over, his payment would be greater than it would normally be under a level payment mortgage, in order to pick up the interest. In the variable rate mortgage, the interest rate is set for a particular time. It may be initiated, let's say, at 15.5-percent interest. It could be tied to the Federal Home Loan Bank Board's index of mortgages. Some are tied to Treasury bill rates and bond rates and so forth.

That rate could change over a period of time. It could go down to 14.5, 13.5, or, conversely, depending on the way interest rates move, it could rise on up from 15.5 to 16 or 17. The rate fluctuates depending on the market.

Mr. McEwen. The only question in my mind, of course, it is obviously too early to get any sort of statistical data as to the success of the program, but I am a strong supporter of the legislation. And my concern is that over the lifetime as you said of a 30-year loan of a home purchase, that once earning capacity increases. And for young families to purchase a home, it seems to me that maybe a 3- or 4-year fixed rate, or a fixed payment, with a next step of another 4 years or so, and then another 4 years would appear to me to provide, to implement the legislation more effectively than an immediate 5-year graduated payment, and then full top out, because I do not think there is going to be that much difference in a young person's earning capacity in the first 3 years of the payment.

I was just a little surprised at the way it was being implemented there and I would just like to share that with you.

Mr. Glass. Many new types of mortgage instruments are being explored in the private sector and by the Federal Home Loan Bank Board. And of course we will be looking at all of them. Any improvements we can make, we certainly will.

Mr. McEwen. I am sure. Do you have any variable rate mortgages?

Mr. Glass. No, sir, at the present time legislation does not authorize the variable rate. That is our interpretation of the legislation.

Mr. McEwen. Did you feel there was any need for such legislation?

Mr. Glass. The Federal Housing Administration, the Administration has bills that will be pending before the Congress to initiate the variable rate mortgage beginning in 1983 for FHA. We will take a close look at that and what the results of that may be and so advise the committee.

Mr. **McEwen**. You say you will take a close look at how the legislation goes through the Congress, or how it is implemented?

Mr. **Glass**. Well, there are many variable rates. They are tied to different indices. It would not be very good if we came out with a variable rate tied to one index, and different formulas and so forth, and FHA have a different one, because the mortgages are generally sold to the same investors without any distinction.

Mr. **McEwen**. Very good point. A final question if I may, Mr. Chairman. Your workload thus far this fiscal year, how does that compare with your projections?

Mr. **Glass**. Our projections in the 1983 budget——

Mr. **McEwen**. I am referring to 1982.

Mr. **Glass**. In 1983 we did the 1982 update which was made last fall based on what the anticipation was for interest rates and so forth. It is considerably high. It was 324,000 for fiscal year 1983 and around 200,000 for this year.

If interest rates do come down, as presently predicted toward April, May and so forth, the activity will be close to probably 190,000 loans. There may be more than that approved by the end of the year, but not guaranteed by that time.

Mr. **McEwen**. In other words, you feel you are right on target with your projections?

Mr. **Glass**. Well, on our present projections, but way off from our original last year.

Mr. **McEwen**. A man of your expertise and background and ability should not be allowed to escape this forum without making your prediction as to what you expect interest rates to be over the course of the summer.

Mr. **Glass**. I believe that they will come steadily down. What level they will reach, whether it is going to be in the 12, 13.5 percent range for GI loans is hard to say. But I certainly can't see that we can stand interest rates as high as they are very much longer.

Mr. **McEwen**. I didn't catch your figure.

Mr. **Glass**. I would say somewhere in the 12 to 13.5 percent range by the end of the summer.

Mr. **McEwen**. By the end of the summer. Thank you very much, Mr. Chairman.

Mr. **Leath**. I never thought I would ever see the day that the 13 percent would sound low. Did you, Mr. Glass?

Mr. **Glass**. No, sir, I didn't. We agonized when we went up through that point. Now we are looking forward to going back to it. It depends on the perspective I suppose.

Mr. **Leath**. Thank you very much. We appreciate, as always, your testimony.

Mr. **Glass**. Thank you, Mr. Chairman.

Mr. **Leath**. We will look forward to working with you to try to keep these programs viable and workable.

Mr. **Glass**. Thank you, sir.

[The prepared statement of Mr. Glass appears on page 57.]

Mr. **Leath**. Our next witness is Robert Karpe, president of the Government National Mortgage Association.

STATEMENTS OF ROBERT KARPE, PRESIDENT, GOVERNMENT NATIONAL MORTGAGE ASSOCIATION; AND WARREN LASKO, EXECUTIVE VICE PRESIDENT OF GNMA

Mr. KARPE. Thank you, Mr. Chairman. I have with me Warren Lasko, our very excellent executive vice president of GNMA.

Mr. LEATH. You may proceed. As you know, we would encourage you to summarize, and we will include your entire testimony in the record.

Mr. KARPE. Thank you, Mr. Chairman. A year ago I didn't even know exactly what a GNMA security was, so I will take a minute or so to explain that. Then I will briefly summarize my statement and be ready for questions, sir.

About the GNMA security. A private lender makes a loan which enables a veteran to buy a home. The lender uses this and other loans to back a security issue. The mortgage market is limited, but those who won't buy whole loans will buy this simple security. GNMA guarantees lender performance on a timely basis. GNMA securities are safe, homogenous, hence, liquid and widely traded.

GNMA pioneered the program by which mortgage originators issued securities backed by mortgages. This pioneering role has been important, and market oriented. GNMA has not added significantly to the contingent liabilities of the Federal government because we have been limited to assuring performance of issuers on securities backed by pools of mortgages already guaranteed by FHA and VA.

Legitimate concerns have been raised about GNMA as part of the Federal government's excessive intrusion into the capital markets. This overall intrusion is a fact. It is appalling. It has contributed to inflation and high interest rates. Restraint of these demands is an important, but by no means the only part of the administration's program to restore economic health to this country. GNMA must help in that effort. GNMA may divert resources. Seventy percent of the investment in GNMA securities in 1981 came from what we call non-traditional sources. This diversion, however, has been almost entirely movement within the private sector. If there were no GNMA, those who presently have mortgages would probably have them anyway, perhaps at a little higher interest cost. And those investing now in the GNMA securities would probably have other investments, perhaps at a little lower rate of return. The Federal Credits Program Committee of the President's Housing Commission found, and I quote:

> The current GNMA market has substantial depth and liquidity, a goal which may not be achieved by conventional pass-through markets for several years. Moreover, the GNMA market may well play a supportive role in the development of the conventional mortgage-backed securities (CMBS) markets. GNMA securities serve as a benchmark against which new types of mortgage-backed securities can be priced. Ginnie Maes also provide the basis for the prospective exchange-traded options market and the currently active organized futures markets in Ginnie Maes. These markets allow mortgage originators and investors to hedge their interest rate risks. Moreover, the futures markets permit hedging activities necessary to the development of dealer forward markets for CMBS. Forward markets are important to issuers of pass-through securities, and dealers that issue forward purchase commitments often utilize GNMA futures to cover their positions.

A danger is that GNMA will prevent development of private alternatives. This development of private mortgage-backed securities is to be encouraged. Hence, there are two initiatives in our fiscal 1983 budget. One is a structure of fees that will allocate credit assistance on a more businesslike basis. It will be more efficient and, we think, cut down on the commitment levels.

And we propose a lower limit on our total commitment level. It is now $68.25 billion. We are suggesting this year $48 billion. And in 1983, $38.4 billion. This is a signal that there is room for the private alternatives to grow and prosper without pulling the rug out from under borrowers. Now, we are all here this morning to talk about VA. This year so far we have participated in the financing of about 40,000 VA homes. Last year we did 140,000. The gentleman before me mentioned about 70 percent of their loans are financed through GNMA. They have projected for 1983, 324,975 loans.

At 75 percent of that, it would be 244,000 homes. And we can handle it under the proposed commitment ceiling. One other little comment. We have had FHA graduated payment mortgages. They do help the first time home buyer, the one less capable. The regulations for GPM's for veterans came out of HUD yesterday. As soon as the appropriate Congressional Committees can act on them, we are interested in helping the veteran have that benefit.

Mr. **Leath**. Thank you, Mr. Karpe. I have a number of questions but I will submit them for the record in the interest of time and ask you to answer them in that manner.[1]

[The prepared statement of Mr. Karpe appears on p. 58.]

Mr. **Sawyer**. I wonder if you could just enlighten me. What is the difference between GNMA and FNMA?

Mr. **Karpe**. GNMA is a Government organization, though it is a corporation and we think is and should be run just like a private corporation within Government. FNMA is held by private stockholders. They have a board of directors. There has been a difference in method of operation in the past. They have largely held loans. We have, in our mortgage-backed security, never bought a loan. They are now going into mortgage-backed securities. Mr. Lasko helped them design it. We certainly wish them well.

Mr. **Sawyer**. That is all.

Mr. **Leath**. Mr. McEwen.

Mr. **McEwen**. Thank you, Mr. Chairman. I am going to ask a rather elementary question. What specifically does GNMA do? What is the capacity of the Government National Mortgage Association?

Mr. **Karpe**. Our capacity?

Mr. **McEwen**. What are your responsibilities?

Mr. **Karpe**. Our responsibilities are to guarantee issuer performance on a pool of securities where that issuer has promised investors who buy just a piece of paper on Wall Street that they will receive a sum certain in dollars on the 15th of every month.

Mr. **McEwen**. Guaranteed?

Mr. **Karpe**. Their guarantee is backed up by our guarantee where we act as a bonding company, a surety bond, if you will. We try to only have creditworthy issuers. If there is anything wrong, we can quickly take the property, which is the mortgages, away from them. It is in the hands of a custodian. As a matter of fact we can take all their GNMA servicing away from them. That is a valuable thing in the marketplace. We can sell that to somebody else and frequently make a little profit on the sale.

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[1] See p. 60.

Mr. McEWEN. You guarantee mortgages.

Mr. KARPE. We do not guarantee mortgages. We guarantee issuer performance. The mortgages are already guaranteed by FHA-VA.

Mr. McEWEN. Thank you, Mr. Chairman.

Mr. LEATH. Thank you, Mr. Karpe.

Mr. KARPE. Thank you, sir.

Mr. LEATH. Our next witness is Mr. James Aylward, President of the Mortgage Bankers Association of America.

STATEMENTS OF JAMES AYLWARD, PRESIDENT, MORTGAGE BANKERS ASSOCIATION OF AMERICA, ACCOMPANIED BY WILLIAM CUMBERLAND, GENERAL COUNSEL; AND KEITH HAFFNER, ASSOCIATE DIRECTOR OF GOVERNMENT AGENCY RELATIONS

Mr. AYLWARD. Mr. Chairman, members of the subcommittee, I am Jim Aylward, president of Sherwood & Roberts, Inc., a Seattle, Wash., mortgage company and president of the Mortgage Bankers Association of America.

On my left is William Cumberland, our general counsel and on my right is Keith Haffner, associate director of Government agency relations for the Mortgage Bankers Association.

MBA would like to commend both Congress and the Veterans' Administration for operating one of the most successful housing programs in this Nation's history. To date, the VA loan program has benefited approximately 11 million veterans, at a minimal cost. I am proud to say that MBA members make a majority of the loans guaranteed under the program.

The current administration has not proposed to limit guaranty commitments under the VA home loan guaranty program, but a restrictive ceiling or reduction on GNMA-MBS activity would restrict the VA loan program. This program is supported entirely by user-fees, and it is a prime vehicle for the sale of VA guaranteed loans to investors.

This is because for the past 5 years, approximately 70 percent of all VA loans have been sold into GNMA mortgage pools. These securities, which have been sold to a wide variety of investors, have largely replaced the traditional capital sources for VA mortgages—thrift institutions and the Federal National Mortgage Association.

During 1981, approximately 100,000 veterans and their families were helped in their home purchases by the availability of the GNMA-MBS vehicle.

Unless GNMA continues to operate on a demand basis, there is no assurance that veterans will have mortgage funds available to them, at all times, as they do now. The ready availability of mortgage-backed securities allows mortgage bankers and other lenders to continue to offer loans to eligible veterans, even during periods of tight money, such as we are now experiencing.

We urge this subcommittee to indicate to the House Budget and Appropriations Committees that the 1983 targets need to be high enough to accommodate expected demand, and need to be flexible enough to allow a supplemental increase by the Appropriations Committee if one becomes necessary.

In light of the various housing stimulus programs being considered, one of which may likely be enacted, MBA believes that the GNMA-MBS commitment ceiling must be established at least at the same level as the 1982 limit of $68.25 billion and probably higher, in order to accommodate demand.

MBA is concerned about the proposed one-half percentage point "user-fee" for VA-guaranteed loans. This fee could impose an additional financial burden upon veterans who wish to become homeowners at a time when record high interest rates already make this goal a difficult one.

If Congress chooses to impose a fee, MBA strongly believes that these funds should be paid directly to the VA and targeted for use by the VA in the administration of the program. H.R. 5710, as introduced, authorizes remittance of this fee to the U.S. Treasury. If payments are made directly to the U.S. Treasury, MBA is most concerned that there will be no effort to match the user-fee paid by the veterans to the service provided and the expenses incurred under the VA home loan guaranty program.

In closing, I would like to cover several issues that we have addressed in more detail in our full statement.

MBA strongly supports the adoption of a VA buydown program that would permit builders and sellers to make a lump sum upfront payment to reduce the effective interest rate on loans to veterans.

Recently, this effective and commonplace method of lowering the monthly mortgage payments in the early years of the loan has made it easier for borrowers to qualify for a loan.

MBA supports the enactment of legislation that would deregulate the VA interest rate from its control by the Administrator, and allow it to float freely in the marketplace. Interest rates have been quite volatile in recent years and this has created havoc whenever the VA rate has not been moved in accordance with market rates.

The market forces of supply and demand, together with the national character of the mortgage market, insure that no single lender or group of lenders in any locality or region could demand and receive mortgage interest rates substantially above the market rate.

Finally, MBA urges that Congress encourage the VA to give careful consideration to permitting financing of the simultaneous purchase of a multiunit mobile home and a lot under its regular loan guaranty program as an affordable housing alternative.

MBA appreciates the opportunity to appear before the subcommittee, and would be happy to furnish any additional information if needed.

[The prepared statement of Mr. Alyward appears on p. 64.]

Mr. LEATH. Thank you, Mr. Aylward. I want to compliment you on your very excellent presentation and your written testimony which, of course, will be included in the record. It was an outstanding presentation. You touched on this briefly, but I would like to get you to expound on it a little bit concerning the administration's 1983 budget proposal will limit credit for GNMA. In your opinion will this credit restriction affect the availability of funds for VA loans?

Mr. AYLWARD. If they don't maintain the $68.2 billion, our figures are based on the administration's estimate of FHA and VA loans, that it would be several million dollars short without any major housing recovery.

Mr. LEATH. So if we do get any semblance of recovery in housing, it may be quite inadequate?

Mr. AYLWARD. Yes, sir, particularly for builders if there is some recovery. They want to buy a GNMA commitment out in advance. They are going to be hesitant to start any veterans loans if that isn't available to them.

Mr. LEATH. Just for curiosity, I was a country banker for 20 years before I came to Congress. I never fully understood what made interest rates go up and down completely. With your background in this business, why are interest rates as high as they are? I have not been able to find anybody from Paul Volcker on down, who could give me any economic or other reason why interest rates ought to be at the level that they are.

Mr. AYLWARD. Well, I will give you our opinion. But I will tell you, Mr. Chairman, we are as equally confused right now. Our people talk a great deal to the Wall Street segment of the mortgage industry. And basically, I think you have heard this before, they tell us that you take the inflation rate—we will say it is 8 or 9 percent now—and you add a real interest rate of 3 to that, and you say it is 12. They say that the investment community is adding about a 4-point hedge to that 12 percent because they don't believe the administration or Congress yet has a hold on inflation. We spoke to the Federal Reserve the other day and asked the Governors when they would admit inflation is under control. They said in 2 or 3 years. I don't know if that answers your question.

Mr. LEATH. I was just curious. I recognize that is not really what we are doing here this morning.

Do you think money market mutual funds have anything to do with the fact that rates are high as they are?

Mr. AYLWARD. Yes, we feel that $180 or $190 billion is being used for absolutely nonhousing purposes.

Mr. LEATH. I wish I had time to discuss my feelings on that with you. Mr. Sawyer.

Mr. SAWYER. I have no questions.

Mr. AYLWARD. Thank you.

Mr. LEATH. Thank you, Mr. Aylward. I do have some questions that in the interest of time I would like to submit for the record for you.[1]

Mr. AYLWARD. Thank you, sir.

Mr. LEATH. Again I want to thank you for coming here this morning.

Our next witness is Mr. Paul S. Egan, deputy director of the National Legislative Commission of the American Legion.

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[1] See p. 79.

STATEMENT OF PAUL S. EGAN, DEPUTY DIRECTOR, NATIONAL LEGISLATIVE COMMISSION, THE AMERICAN LEGION

Mr. **Leath**. Good morning, Mr. Egan.

Mr. **Egan**. Good morning, Mr. Chairman.

Mr. **Leath**. We are delighted to welcome you, as you know, and if you would summarize your statement we would be happy to include all of it in the record.

Mr. **Egan**. Mr. Chairman, members of the subcommittee, the American Legion thanks you for allowing us to present our views on the VA guaranty loan program. We recognize that no one is currently saying that there ought to be a reduction or curtailment of the VA home loan program. However, we cannot help but be cautious when a 20 percent reduction in a program is proposed, that currently affects upwards of 70 percent of VA mortgages.

We find ourselves faced with the question, "Will the proposed reduction in GNMA credit ceiling level result in a de facto reduction in mortgage fund availability for the veteran home buyer and seller?" We find that there are subtle indications that such might be the case.

Over the last several months the American Legion has tried to assess the impact that a GNMA phase down would have on the VA home loan program. What we have been able to ascertain is that there are many questions, on both sides of the issue, that need to be answered before a valid determination of the impact of this proposal can be made.

If it is found that veteran home buyers and sellers would be adversely affected by a phase down in GNMA activity, then we would be compelled to strenuously oppose any and all measures aimed at reducing GNMA activity.

On the other hand, the Legion would not oppose the phasedown proposal if it can be shown that veterans will not, in fact, be denied their home loan entitlements or access to currently available mortgage money.

Mr. Chairman, we are sure that you and the other members of the subcommittee recognize that the inordinately high interest rates currently being charged for mortgage money, as well as other consumer credit, have served to price many deserving and otherwise creditworthy veterans out of the housing market.

The current interest rates make a shambles of the VA home loan program; and veterans, through no fault of their own, are being effectively denied a congressionally awarded entitlement for patriotic service. A brief review of the current VA home loan program will illustrate this point.

On page 207 of "Major Themes and Additional Budget Details," the administration maintains that the proposed reductions in the "mortgage-backed security program should positively affect aggregate credit markets and exert downward pressure on interest rates; encourage the development of mortgage-backed securities programs in the private market for both conventional and Government-insured mortgages, and reduce budget outlays since additional income will be generated by the increase in user fees."

According to the Congressional Budget Office's report to the Senate and House Committees on the Budget, part III (p. 24), "Reducing the Federal Deficit: Strategies and Options," referring to non-GNMA mortgage-backed securities, "If these new instruments gain the acceptance that GNMA securities now enjoy, the mortgage market might be able to function efficiently without GNMA." Both the administration and CBO statements cause this organization some concern.

Noticeably absent from both the administration and CBO accounts is an assessment of impact, short and long term, on the VA home loan program. If private sector mortgage-backed securities find acceptance, will they in turn find VA home loans as desirable as other types of mortgages?

We ask this because of the two aspects of VA mortgages that may work against the home buyer. Will the veteran home buyer, opting to use his entitlement, be able to obtain mortgage money while the private MBS programs are gaining acceptance?

Secondly, will private mortgage-backed securities developers deem it advisable to have assumable, no money down mortgages in their programs? Current indications are that they would not.

The administration maintains that a reduction or curtailment in GNMA activity "should positively affect aggregate credit markets and exert downward pressure on interest rates." We question this assumption and are unable to specifically ascertain how the proposed change would exert a downward pressure on interest rates.

It seems to us, in the absence of a more compelling argument, that by restricting Federal funds and/or guarantees, you are in effect removing credit—that is, money—from the market, thus increasing competition for the remaining private sector capital. Could this elevation of bidding drive interest rates even higher? If our suspicion is correct, fewer and fewer veterans will be eligible in the coming years, resulting in a de facto dismemberment of the VA home loan program.

We would like to turn our attention to the administration proposal of one-half of 1 percent user fee. The administration's assertion that it is reasonable for veterans to bear a portion of the cost of providing the benefit can only be based on an assumption that the benefit is given and not earned. We feel to the contrary that the American soldiers served all Americans and that the VA home loan program is an earned benefit.

One part of this proposal that concerns us is the turning over of the proposed fee to the Treasury. If in its wisdom the subcommittee determines a user fee must be assessed, we would like to see the proceeds not only stay within the Veterans' Administration but that some portion be used to fund title 3 under Public Law 97-72, the "Veterans' Small Business Loan Act of 1981."

We feel that by using a part of the proposed fees to fund the small business loan program veterans would, in effect, be contributing to the general welfare of veterans. Thus the veteran home buyer would have a direct part in helping a congressionally established program succeed.

Our concerns do not stop here; the administration has called for a raise in the GNMA commitment to be, on average, equal to $1,000 per pool package commitment as well as "a new fee of $250 to be charged to new GNMA securities issuers."

First, there is the 0.5-percent user fee that would amount to approximately $258 per loan, based on a mean VA loan value of $54,000. Second, we know that upward of 70 percent of all loans are placed in GNMA mortgage backed securities. Third, we can assume that any raise in commitment fees, or new issuer fees, will be passed on to the consumer.

Therefore, what we end up with is an administration proposal that would require veterans to pay twice; once to use their entitlement and again in the higher fee that will be paid by the veteran to the lender. We can hardly consider this equitable and are opposed to any plan that would have such an economic impact on the veteran community.

[The prepared statement of Mr. Egan appears on p. 89.]

Mr. **Leath**. Thank you, Paul; you not only state The Legion's concern but ours as well. I assure you we will diligently do everything we can to try to make some of these things better.

Mr. Sawyer, do you have any questions?

Mr. **Sawyer**. No, Mr. Chairman.

Mr. **Leath**. Thank you very much.

Our next witness is James Magill, special assistant to the National Legislative Service of the VFW. We are happy to welcome you this morning. If you care to summarize, we will include your entire statement in the record.

STATEMENT OF JAMES MAGILL, SPECIAL ASSISTANT, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS

Mr. **Magill**. Thank you, Mr. Chairman, for the opportunity to present the views of the Veterans of Foreign Wars of the United States with respect to the veterans home loan guaranty program. We view the program as one of the most successful and beneficial programs administered by the VA and believe it should enjoy the full support of the Congress and the administration.

The VFW, however, believes certain administration proposals may have an adverse impact on this program. In their proposed 1983 fiscal year budget the administration is suggesting a user fee of one-half of 1 percent of the loan amount to offset the processing cost of VA guaranteed loans. The VFW questions the inappropriate profit gained by this fee and the fact such fees would not be made available for use by the VA. We also question why the user fee is based on the full loan amount rather than the guaranteed amount.

Another proposal submitted by the administration would reduce by approximately 50 percent the limits on the Government National Mortgage Association program. The VFW opposes this reduction in that it could severely compromise the VA Home Loan program. It is also our understanding that imposing a higher level than the administration requested would not result in increased outlays since this program is self-supporting.

This concludes my statement and I will be happy to answer any questions you have sir.

[The prepared statement of Mr. Magill appears on p. 102.]

Mr. **Leath**. Thank you, James. We appreciate that statement. Do you have a question?

Mr. **Sawyer**. No; I have no questions.

Mr. LEATH. Thank you.

Our next witness is Mr. Richard W. Johnson, Jr., national legislative director of the Non-Commissioned Officers Association of the United States of America. We are happy to welcome you this morning.

STATEMENT OF RICHARD W. JOHNSON, JR., NATIONAL LEGISLATIVE DIRECTOR, NON-COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

Mr. JOHNSON. Thank you, Mr. Chairman. I, too, will be brief in my remarks.

The Non-Commissioned Officers Association appreciates the opportunity to be here this morning to speak on this subject. We are concerned exclusively with the provisions of H.R. 5710 this morning. Quite frankly, Mr. Chairman, the housing industry is in such terrible shape, with unemployment in the industry at 18 percent, with 95 percent of all Americans priced out of the housing industry or out of new home purchases, we don't see how the committee realistically can consider putting a further burden on the veteran as he competes with others in the housing market.

Now, the veteran has enjoyed a mild advantage in purchasing a new home from the home loan guaranty provisions that have existed for years and years.

To charge a user fee or a funding fee on this VA home loan guaranty we believe is unfair. The veteran has earned this right. It has been a free entitlement. At this point in time with market conditions, interest rates being what they are, we see it as crippling the veteran in the attempt to purchase a new home. The committee in the budget recommends we understand has made certain concessions. There must be concessions made in any budget. We are dealing largely with a non-service-connected population, a population of veterans with non-service-connected disabilities, if any disability at all, in the veterans home loan area.

But that does not diminish the service that these individuals have provided this country. And it should not diminish the rewards that they receive from it.

The committee in their budget recommendation exempted service-connected veterans from this home loan fee, it is our understanding. There is one other class of veterans, if this home loan fee is to be imposed that we believe should be exempted also. Those are the people currently on active duty. We require a lot of our members of the Armed Forces. They are eligible for the VA home loans. We require them to move frequently. The way market conditions are today, with their every move there is a loss either due to a diminished value sale or due to an increased interest rate on the purchase of a new home at a subsequent duty station.

If, in fact, the committee goes forward—with H.R. 5710, we ask that in addition to exemptions being provided for veterans with service-connected disabilities, that veterans, or active duty service members, however the committee wishes to define it, also be exempt from the provisions. But again, Mr. Chairman, we oppose the measure entirely. That concludes my statement.

[The prepared statement of Mr. Johnson appears on p. 105.]

Mr. **Leath**. Thank you, Richard. You have a good point there, and the committee will have the staff look at some figures as far as active duty personnel are concerned, to see how much money would be involved.

Mr. **Johnson**. Thank you, Mr. Chairman.

Mr. **Leath**. We appreciate your pointing that out to us. Thank you very much, Richard.

Mr. **Johnson**. Thank you.

Mr. **Leath**. Unless someone else has something, the committee stands adjourned.

[Whereupon at 10:45 a.m. the subcommittee adjourned subject to the call of the Chair.]

APPENDIX

PREPARED STATEMENT OF HON. CHARLES E. BENNETT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. Chairman, I am extremely grateful to have been allowed the opportunity to appear before your distinguished Subcommittee today. I am here to protest the proposed relocation of the Florida Veterans Administration Loan Guaranty Division Office from Jacksonville to St. Petersburg, Florida. I strongly oppose this proposed move and have introduced a Bill, H.R. 5702, which would prohibit the relocation.

Mr. Chairman, I would first like to offer a brief statement in support of my position. Then I would like to introduce Mr. Paul Hazlett, an independent business consultant, who will make a short statement in regard to a study he has completed on the proposed relocation which shows that the move will not be cost-effetive as the Veterans Administration claims.

I am opposed to the proposed relocation for several reasons. The Florida VA Loan Guaranty Division Office has been located in Jacksonville since 1946. It was originally located in St. Petersburg and was relocated to Jacksonville because it was concluded that in Jacksonville the office would function best. It was concluded that it would function best in Jacksonville because Jacksonville was where the major mortgage banking firms were located. Even to this day, the major mortgage banking firms of Florida are located in Jacksonville. In fact the two largest firms and four of the top eight largest are located in Jacksonville, as the following list shows:

Name	Home office	Servicing portfolio
Stockton, Whatley, Davin	Jacksonville	$2,551,000,000
Charter Motgage Co	do	1,856,000,000
Southeast Mortgage Co	Miami	1,443,500,000
Atico Mortgage Corp	do	540,000,000
McCaughan Mortgage Co., Inc	Coral Gables	415,000,000
Barnett Mortgage Co	Jacksonville	390,000,000
Arvida Mortgage Co	Clearwater	352,000,000
Tucker Bros., Inc	Jacksonville	347,000,000

It is significant that none of these firms operates in St. Petersburg.

The mortgage banking firms in Jacksonville have indicated to me their great respect for the Jacksonville office and its reputation for professionalism, efficiency, and responsiveness to the needs of the veteran and active duty personnel in the State of Florida. The mortgage banking firms in Jacksonville strongly oppose the proposed move, and consider that it would be detrimental to their ability to deliver prompt, efficient service to citizens of Florida seeking VA loan guaranty financing.

The proposed relocation will also have a detrimental impact on my constituents in another manner. Specifically, Federal employees including 131 members of the National Federation of Federal Employees will lose their source of livelihood in Jacksonville. Even those who are chosen to relocate and who decide they will relocate will have to move to St. Pete and experience all the economic hardship that goes along with relocation in these high-interest-rate times.

Finally, there is a current effort underway to study a more comprehensive reorganization of VA offices nation-wide. I firmly believe that before this study is concluded, no major relocation costing in excess of 1 million dollars, such as the proposed move from Jacksonville, should be undertaken.

Mr. Chairman, at a time when this Congress is considering ways to assist the depressed housing industry, I certainly don't think the relocation of a VA Loan Guaranty Office which has proven to be highly effective in such matters is going to help anyone. My constituents and myself strongly oppose a relocation which we believe will be detrimental to the citizens of Florida. Thank you very much for the opportunity to present my views to your distinguished Subcommittee.

Now, I would like to yield to Mr. Paul Hazlett, from Jacksonville, Florida, who is an independent business consultant and who has conducted an in-depth analysis of the proposed move. He has unselfishly given of him time to fly up here and give this distinguished Subcommittee the benefit of his expertise.

SELECTED CORRESPONDENCE IN SUPPORT OF CONGRESSMAN CHARLES E. BENNETT'S STATEMENT

NORTHEAST FLORIDA BUILDERS ASSOCIATION,
Jacksonville, Fla.

The Board of Directors of the Northeast Florida Builders Association unanimously adopted the following:

RESOLUTION

Whereas, a Public Hearing was held in Jacksonville, Florida, on March 15, 1982, concering the proposed move of the VA Loan Guaranty Office to St. Petersburg, and

Whereas, the report prepared by the Florida VA Benefits Office in St. Petersburg reached totally false conclusions as to the savings and benefits of the move, and

Whereas, the annual cost of the move would be from $12,016 to $117,856 instead of a purported annual savings of $589,188, and

Whereas, the cost of the move was estimated by the report to be $983,210, and this figure included no financing expense, and

Whereas, service to the veterans and the industry would be severely crippled for years, since 57 percent of the technical staff would be unable to make the move, requiring complete new staffing and training, and

Whereas, at the hearing a request was made for a GAO and an OMB investigation prior to any move to prevent such a flagrant waste of taxpayers' money, and also, to fix responsibility for the Veterans Administration's recommendation of this move without any proper analysis. Now, therefore, be it

Resolved: That the Northeast Florida Builders Association requests that no further consideration be given to moving the VA Loan Guaranty Office from Jacksonville, Florida, until an independent study be made, other than that from the VA to document such a move would be cost effective.

THE COMMONWEALTH CORP.,
Tallahassee, Fla., February 23, 1982.

Hon. CHARLES E. BENNETT,
Third District, Florida,
Rayburn House Office Building,
Washington, D.C.

DEAR SIR: This letter shall serve to voice my opposition to the proposed move of the Veterans Administration Housing Division from Jacksonville to St. Petersburg, Florida. Such a move could only have an adverse effect on the employees of the Veterans Administration who would either have to relocate or seek employment elsewhere. Most important, for years the Veterans Administration has operated the Loan Guaranty Division in Jacksonville in an efficient and cost effective manner. All approved lenders in the State of Florida are accustom to dealing with the VA in Jacksonville and to my knowledge have voiced no support for the proposed move. Unless it can be explicitly demonstrated that the proposed move would improve the efficiency and cost effectiveness, it would seem relocating the Loan Guaranty Division would be a waste of the tax payers' money.

I hope that the Congressional Committees involved in this matter will take a hard look at the possible results of such a proposed move and base their decisions not only on economic and efficiency considerations, but also on the effects felt by those of us who deal with the Veterans Administration on a continuing basis in our day-to-day business and the employees and their families who would be adversly impacted by such a move.

Very truly yours,

PAUL E. BIBB, Jr.,
Vice President.

STOCKTON, WHATLEY, DAVIN & CO.,
Jacksonville, Fla., February 15, 1982.

Congressman CHARLES E. BENNETT,
Third District,
Rayburn House Office Building, Washington, D.C.

DEAR CHARLIE: Thank you for sending me a copy of your letter to Mr. Robert P. Nimo, Administrator of the Veterans Affairs, regarding relocation of the Jacksonville VA Loan Guaranty Division Office.

I applaud your courageous stand and efforts to prevent this move from taking place. The effects on northeast Florida and the veterans of this state would indeed be very unfortunate. I only hope that we can prevail and convince the Congress to thwart this action. Please call on me if I can be of assistance in this effort.

Also, I would like to thank you for sending me a photograph of the two of us at your recent reception here in Jacksonville. It was a privilege for me to attend, and I appreciate your sending me a thoughtful momento of the occasion.

Sincerely,

WILLIAM R. BOLING.

NATIONAL FEDERATION OF FEDERAL EMPLOYEES,
FEBRUARY 8, 1982.

Hon. CHARLES E. BENNETT,
Third District, Florida,
Rayburn House Office Building, Washington, D.C.

DEAR CONGRESSMAN BENNETT: On behalf of the members of the National Federation of Federal Employees Union, Local 1213, who have exclusive recognition to represent all employees of the Loan Guaranty Division of the Veterans Administration, located in Jacksonville, Florida, we wish to elicit your support regarding the transfer of this agency to the Regional Office in St. Petersburg, Florida.

This division has been operating effectively since 1946 in Jacksonville and, in fact, has been a leader in the country in productivity, effectiveness, service to the veterans of Florida, and the lenders throughout the State of Florida in the area of housing needs.

We are all well aware of President Reagan's commitment to make Government and Federal employees accountable, and to reduce Federal spending. We support him in that effort. We also support Mr. Rainwater, Regional Director, in his task to operate the Regional Office in Florida in the most cost effective way possible to meet this objective.

We feel, however, after reading Mr. Rainwater's study, that this move has a severe, adverse effect on employees in the Jacksonville office. The study indicates that of 149 positions, 27 of these positions could be eliminated by the move. We presently have 131 employees in the Jacksonville office. If this move is affected, we would presumably lose on-half of these employees. These are career employees who have spent years building equity in their homes to insure that they will be in a position to support their families and live on a retirement income. Most of these employees have low interest mortgages with large equities that they cannot afford to sell in a depressed housing market. Furthermore, they cannot afford homes at the higher interest rate of 16½ percent and above. These employees would be separated from their families and have separate housing and commuting expenses to come home on weekends in order to protect their investments.

Of the employees that are technical and would move, almost all have spouses with jobs. In addition to the loss of home equity and the prospect of higher interest, they would be expected to live with higher expenses and on half the income. These spouses would be seeking employment in an economy with upwards to a 10 percent unemployment rate.

The majority of non-technical level employees simply cannot afford such a move and would have to seek employment elsewhere, if they are lucky enough to find a job.

It seems that Mr. Rainwater's study reflects a reduction of the total number of employees in the entire Regional Office at the exclusive expense of the employees in the Jacksonville office. This would certainly solve some staffing problems but says nothing for the performance and effectiveness of these employees in an economy over which they have no control, or the effect this move will have on these employees.

Although the report reflects 146 employees in the Jacksonville office, we are presently down to 131. The total number of employees in the St. Petersburg office is 512. We challenge Mr. Rainwater to solve the staffing problems in a more equitable way from among the total of his employees, not just the ones in Jacksonville.

The report also indicates that it was necessary to negotiate a new station Merit Promotion Plan with two (2) labor unions. AFGE in St. Petersburg and NFFE in Jacksonville. It would appear that this move would also be an effective way of destroying a labor organization with exclusive recognition to represent a collective bargaining unit. Leaving five (5) employees in Jacksonville, as stated in the report, would comply with the law in that it does not dissolve the unit; however, it would render it totally ineffective.

Mr. Bennett, we 131 employees are without the resources to challenge the figures in the study that have been presented to Washington. We implore you to do all in your power to investigate the cost and effectiveness of this move and the manner in which it affects these employees, and to intercede in our behalf.

We also wish to point out that at a time of high interest rates, high unemployment, and the possibility of regionalization within the Department of Veterans Affairs, maybe a move of the Loan Guaranty Division at this time would be premature.

It could be that employees affected by this move would again be affected by regionalization in the near future, if they survive the 1948 budget cuts. This is not an equitable situation.

We understand that the proposed move is to be presented to Congress on February 8, 1982. An opposition must be effected within seven (7) days from the date of the presentation of the proposal to Congress.

We would appreciate this information being submitted to the committee studying this proposal.

Respectfully,

SHERYL A. BRIGHT, *President.*

NAVY FEDERAL CREDIT UNION,
Jacksonville, Fla., December 11, 1981.

Hon. CHARLES E. BENNETT,
U.S. Congressman,
Rayburn Office Building, Washington, D.C.

DEAR MR. BENNETT: As a lender in the Jacksonville and surrounding area, we are concerned to hear that there is the possibility of the local VA offices being moved to St. Petersburg.

As you know, there are four military bases in the Jacksonville area. The local VA office not only is helpful to the military personnel on these bases but also to the great number of persons transferred here from other areas.

We cannot begin to tell you what having a local VA office means to the lenders in the area. We are able to obtain the help we need in order to serve veterans in a very efficient and expedient manner. We feel this service would be interrupted should the VA offices be moved.

Our experience with the VA here has always been a very pleasant one, and we feel we have a very good working relationship with them. We would like very much to continue to provide veterans in this area with fast, efficient service, not only in mortgage lending, but in all other areas connected with the VA.

Sincerely,

DIANNE BOYD,
Supervisor,
Mortgage Processing and Closing Section.

MORTGAGE BANKERS ASSOCIATION OF JACKSONVILLE,
Jacksonville, Fla., December 3, 1981.

Hon. CHARLES E. BENNETT,
Jacksonville, Fla.

DEAR CONGRESSMAN BENNETT: It has been brought to our attention that strong consideration is being given to moving the VA Loan Guaranty office from Jacksonville to St. Petersburg, Florida. The mortgage banking industry in the Jacksonville area is opposed to such a move and urges you to keep the VA Loan Guaranty office in our city.

With four large naval bases in the Jacksonville area many service personnel who are eligible for VA Guaranty home loans are living in our city. Being a port city and having one of the largest shipyards on the East Coast makes Jacksonville attractive to discharged and retired military personnel in the area due to the abundance of maritime related jobs. This further adds to the large number of eligible veterans in the Jacksonville area. If the office were to move, we would no longer be able to maintain the personal contact that is needed in some instances. With the large number of mortgage companies having home offices in Jacksonville, the direct contact is needed here as opposed to St. Petersburg where there are only a few branch office operations.

In order to continue to give the type of prompt service these veterans deserve, we consider it imperative that the VA Loan Guaranty office remain in Jacksonville.

Sincerely,

JAMES W. EMERY, *President.*

STOCKTON, WHATLEY, DAVIN & CO.,
Jacksonville, Fla., November 30, 1981.

Hon. CHARLES E. BENNETT,
Congress of the United States,
Federal Building, Jacksonville, Fla.

DEAR CONGRESSMAN BENNETT: It caused me great concern to read the attached article that appeared in the Florida Times-Union Wednesday, November 25, 1981, concerning the proposed move of the VA Loan Guaranty section to St. Petersburg. I offer the following reasons why, in my opinion, it would be a horrendous mistake to re-locate this division:

(1) Jacksonville probably has the highest concentration of active duty servicemen who use the VA Loan Guaranty Programs due to the three military installations located in this area. Such a move would cause serious delays and inconvenience for a great many active duty veterans in North Florida in acquiring a VA-guaranteed home loan.

(2) Jacksonville is already in a pattern of slow growth and the move could create a negative economic impact. The dramatic disruption of this Loan Guaranty Program would be created due to lack of qualified personnel which would result from those members who would be unable or unwilling to transfer.

(3) The State Regional Office of FHA is also located in Jacksonville.

(4) If such a move were to take place, the result would be very costly due to the need for larger facilities, the training of new personnel, and a higher wage base due to the higher cost of living in St. Petersburg.

BARNETT MORTGAGE CO.,
Jacksonville, Fla., November 25, 1981.

Mr. ROBERT NIMMO,
Veterans' Administration Central Office,
Washington, D.C.

DEAR MR. NIMMO: I am writing to express my concern over an announcement by the Florida Regional Director about moving the Loan Guaranty Office from Jacksonville to St. Petersburg. First of all, I want to assure you that I am in favor of reducing government costs wherever possible. However, I would like to comment about the reasons cited in the article for the move:

I question how the savings of $600,000 per year could be attributed to the new location. Could similar savings be accomplished without the move?

I agree that the Jacksonville office has a low work load at this time. I believe that this is a temporary situation which should change in the very near future. When loan volume is at normal levels we in the lending industry were convinced that the Jacksonville office was understaffed.

I do not believe that there is a heavy concentration of veterans living in the St. Petersburg area. For example, in 1980 the number of units guaranteed in the more populous counties was: Pinellas, 1,701; Hillsborough, 2,069; Orange, 1,209; Duval and Clay, 2,254; Broward, 1,580; Dade, 1,568; Palm Beach, 974.

All of the business is done with the lending industry. Although most of the work is done by mail and telephone, personal contact with lenders is very helpful.

Most of the lenders in Florida who originate a significant volume of VA loans have their home offices in Jacksonville or in South Florida. None are headquartered in St. Petersburg. The ten largest mortgage bankers are shown below:

Name	Home office	Servicing portfolio
Stockton, Whatley, Davin	Jacksonville	$2,551,000,000
Charter Mortgage Co.	do	1,856,000,000
Southeast Mortgage Co.	Miami	1,443,500,000
Atico Mortgage Corp.	do	540,000,000
McCaughan Mortgage Co., Inc.	Coral Gables	415,000,000
Barnett Mortgage Co.	Jacksonville	390,000,000
Arvida Mortgage Co.	Clearwater	352,000,000
Tucker Bros., Inc.	Jacksonville	347,000,000
Freedom Mortgage Co.	Tampa	283,000,000

The Jacksonville Loan Guaranty office has long had the reputation of professionalism, efficiency and responsiveness to the needs of the veteran. I hope that the proposal to relocate this office will be studied carefully. I feel that you will conclude that the quality of service offered by the Jacksonville office should not be disturbed by relocating it to St. Petersburg.

Yours truly,

James R. Griffiths,
President.

Enclosure.

An Independent Analysis Concerning the Possible Relocation of the Florida Loan Guaranty Division

(By Paul B. Hazlett, MBA, Harvard Business School)

SUMMARY

In considering the relocation of the Jacksonville Loan Guaranty Division Office (LGD) to St. Petersburg, the study by the Regional Office compiled a set of facts. It is not those facts that we question, but rather their analysis and interpretation.

The supposed service improvements do not follow from the analysis presented, while 91 percent of the alleged financial benefits relate to two items: space savings and staff reduction.

Concerning the space savings, the analysis in the study compares "apples and oranges." Further, it unbelievably contends that an 18 percent reduction in staff will reduce space needed by 36 percent. Truer estimates of "savings" range between a saving of $72,100 and an additional cost of $33,700.

The proposed staff reductions appear to be a disguised reduction due to decreased workload. These savings cannot be attributed to the move.

Additionally, the alleged annual benefits do not take account of any losses in productivity or the cost of the debt required to finance the move. We will not try to account for the cost of lost productivity, which could be substantial given that 57 percent of the trained technical staff have indicated they will not move. However, the approximate one million dollars of debt required to finance the relocation will cost $137,650 per year.

Our analysis indicates that the net quantifiable cost to the Federal Government will be between $12,000 and $117,900 per year. This is in addition to the estimated one million dollars required to effect the relocation. Therefore, the relocation can be seen to make sense neither from the point of view of improved level of service nor decreased cost to the taxpayer.

COST/BENEFITS ANALYSIS

Level of service

The report prepared by the Regional Office alleges that service to veterans will be improved by relocating the LGD. But, the report only addresses itself to the demand side and does not consider the supply of services to the veteran.

Almost all loan guarantees are originated through mortgage bankers, the largest of which have head offices in Jacksonville. While a great deal of emphasis is placed upon the veterans' commuting distance in the report, this is totally irrelevant as the mortgage bankers, not the veteran, must commute to the Loan Guaranty Division. Mortgage bankers need face-to-face communication in many cases to provide adequate service. The loss of the 57 percent of trained technical staff who have indicated that they will not move will create additional massive disruptions in service to the veteran. Therefore, relocation of the LGD could seriously impair the supply of services to veterans.

Further, the report attempts to obscure demand for loan guarantees. The following items are illustrative:

A. Duval and Clay counties presently lead in usage of benefits and services. The report alleges that this is because of the location of the LGD, without considering any other factors. Given that most loans are originated in the private sector, it would appear that other factors have a substantial influence. Expanded service to other areas will not, therefore, necessarily result from relocating the LGD.

B. The report never aggregates Duval collar counties as it does elsewhere in the state. This is an attempt to eliminate the growth in veteran population around the Jacksonville area.

C. Duval and Clay counties, and probably Nassau county in the future, are high growth areas in terms of eligible population. Naval bases in this area are scheduled to receive substantial increases in their manpower contingents over the next several years. This potential growth is not accounted for in the report.

It can be seen from the above analysis that the report provides no evidence of improved service due to the relocation of the LGD to St. Petersburg.

Staffing requirements

Obscurely presented in the report is the fact that the LGD is presently processing one-third of the past levels of loan applications due to the present condition of the housing industry. It is clear that the 27 employee reduction (18 percent) relates to reduced workload. This benefit could be achieved through layoffs or attrition without the expense of relocation.

A counter argument can be presented that the fluctuations in LGD workload could be smoothed in the Regional Office. This assumes, however, that either the Regional Office, which has a stable workload, is over staffed at present or that service in other areas will be reduced to accommodate the fluctuating workload in LGD. If level of service is reduced in the other areas the cost of the reduced level of service is not included. If the other areas are presently over staffed, their higher utilization does not represent a benefit of relocating the LGD since this benefit could be achieved without relocating the LGD by reducing the Regional Office staffing.

Thus, any benefits from staff reduction do not result from relocation of the LGD.

Space requirements

The calculations contained in the report misrepresent any possible savings in space utilization due to relocation of the LGD, for the following reasons:

A. The calculations do not fully charge the space that will be used by the LGD if it is relocated to St. Petersburg.

B. The decision as to relocating "remote space" in St. Petersburg is independent of any decision to relocate the LGD.

C. It is unreasonable to believe that an 18-percent reduction in staff will produce a 36 percent reduction in space used.

The true changes in the cost of space utilized range between a savings of $72,100 and an additional cost of $33,700 (Exhibit A).

Cost of relocation

The Regional Office estimates the cost of the move to be $983,210. Neither the cost of financing the move nor loss of productivity are included in this estimate.

Given a current cost of approximately 14 percent to finance the Federal debt and accepting the Regional Office's estimate of relocation expense, the cost of financing the move will be $137,650 per year.

We will not attempt to estimate the cost of lower productivity. However, a survey of employees found 57 percent of the trained technical staff unwilling to relocate. Losses of technical staff in that order of magnitude will disrupt operations for years.

As an aside, of the estimated $983,210 total relocation cost, $801,000 is allocated to translocation of employees. This amounts to $16,020 per employee relocated (assuming 43 percent of the 116 positions remaining after staff reduction relocate). Merrill Lynch figures the cost of relocating one employee for a typical organization at approximately $35,000. This would make the translocation expense $1,750,000 and the total relocation cost $1,932,210 further impairing the case for relocation.

Annual net benefits relating only to relocation

We will not contest the alleged teletype, telephone, and employee travel savings.

However, 91 percent of the alleged benefits in the report relate to savings on staff and space. These are very much contested. No savings on staff are attributable to the relocation, while the proposed savings on space are fallacious.

Taking into account these revised "savings" figures and the cost of financing the move, estimated annual net costs of this relocation range between $12,000 and $117,900 (see Exhibit B). These figures do not include the cost of performing the relocation or the lost productivity. The cost of the relocation alone is approximately one million dollars.

This relocation can be justified neither on the basis of improved service to the veteran nor savings to the government (in fact, it will cost the government money on an annual basis).

POSSIBLE FUTURE DEVELOPMENTS

A National Committee chaired by Chief Benefits Director of the Veterans Administration, Mrs. Starbuck, is studying more contralization of the Va offices. It could recommend the move of the St. Petersburg Regional Office to Atlanta or Washington, D.C. The relocation makes even less sense when exactly the same cost could be incurred again if another relocation is required.

EXHIBIT A.—ALTERNATIVE EFFECTS OF RELOCATION ON SPACE EXPENSE

	Scenario No. I: Space in Jacksonville cannot be temporarily reduced to reflect staffing		Scenario No. II: Space in Jacksonville can be reduced to reflect staffing		Scenario No. III: Space most be leased in Tryone Towers to accommodate expanded loan guaranty division	
	Square feet	Cost	Square feet	Cost	Square feet	Cost
Without relocation:						
Jax space at $5.30 per square foot	34,844	$184,673	23,520	$124,656	34,844	$184,673
Files in St. Pete at $8.47 per square foot	23,520	199,214	23,520	199,214	23,520	199,214
Subtotal		383,887		323,870		383,887
With relocation:						
Jax space at $5.30	3,484	18,465	3,484	18,465	3,484	18,465
LGD in St. Pete at $8.47	23,520	199,214	23,520	199,214	23,520	199,214
LGD in St. Pete at $13.50	0	0	0	0	7,840	105,840
Files in St. Pete at $4	23,520	94,080	23,520	94,080	23,520	94,080
Subtotal		311,759		311,759		417,599
Savings		72,128		12,111		(33,712)

Assumptions:

1. Space presently under utilized by files in St. Petersburg has no alternative use except the relocation of Loan Guaranty Division.

2. An 18-percent reduction in staff saves 25 percent of space, not 36 percent.

EXHIBIT B.—ANNUAL BENEFITS RELATING ONLY TO RELOCATION

Space scenario	I	II	III
Teletype	$12,595	$12,595	$12,595
Telephone	20,910	20,910	20,910
Employee travel	20,000	20,000	20,000
Staff reduction	0	0	0
Space savings	72,128	12,111	(33,712)
Total benefits	125,633	65,616	19,793
Interest expense at 14 percent	137,649	137,649	137,649
Net benefits	(12,016)	(72,033)	(117,856)

PREPARED STATEMENT OF HON. C. W. (BILL) YOUNG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. Chairman, thank you for allowing me to present testimony before your subcommittee concerning the Veterans Administration's decision to relocate the Loan Guaranty Division from Jacksonville to St. Petersburg, Florida.

In the fall of 1981, the Veterans Administration directed the St. Petersburg Regional Office to study the most cost-effective and efficient means of providing the best service to the state's veterans. The study determined that consolidating the Loan Guaranty Division in Jacksonville, with the Regional Office in St. Petersburg, would result in an annual savings of $589.188. The study also determined that the consolidation would eliminate overlapping responsibilities and provide improved service to the state's veterans. The total cost of relocating the Loan Guaranty Division, $988,210, will be recovered over the first 18 months after the shift because of reduced operating expenses.

By merging the Loan Guaranty Division into the Regional Office, the VA can eliminate 27 duplicate positions in the loan operation, at an annual savngs of $355,140. The VA will also make substantial savings in other areas including: $180,543 by reducing office space requirements, $33,505 by eliminating the need for costly telephone and teletype equipment for communication between Jacksonville and St. Petersburg, and $20,000 in employee travel costs.

With the Chairman's permission. I would like to make this study available to the Subcommittee along with a letter from Administrator Robert Nimmo explaining his decision to recommend this move.

The large veteran population in Florida is concentrated in the central and southeastern parts of the state. While Duval County which includes Jacksonville in northeast Florida, represents 8.5 percent of the veteran population, 16.6 percent reside in the south in Dade County. Pinellas and Hillsborough Counties, in central Florida, account for another 16 percent of the state's veteran population.

The VA Regional Office, the largest in the nation based on work produced and the nation's only regional office where the Division of Veterans Benefits and the Loan Guaranty Division are not jointly located, was established in St. Petersburg because it is the center of the state's veteran population. More than one-third of the state's veterans are within easy commuting distance of the St. Petersburg office. Relocating the Loan Guaranty Division in St. Petersburg will consolidate all of the state's major VA facilities in one central location, which is accessible to the greatest number of veterans. I would like to emphasize that this move will not leave Duval County and the Jacksonville area without service. Five Loan Guaranty Division employees will remain in Jacksonville to perform field work and to provide service to veterans.

All employees have been notified by the VA of the plan to relocate the Loan Guaranty Division, and every Jacksonville employee will be offered a job at the St. Petersburg Regional Office. The VA will pay for the relocation of employees and it will establish a task force composed of community representatives to help make the transition to St. Petersburg as easy as possible. For those employees who decide not to move, the VA will assist them in finding other employment with the federal government in the Jacksonville area. Because Jacksonville has a large concentration of federal jobs, mainly in the Department of Defense, the potential for continued employment is excellent.

This decision to consolidate the Loan Guaranty Division with the VA Regional Office is long overdue. An organizational change resulting in an annual savings of

$589,188 in taxpayers' dollars, while providing improved service to all Florida veterans, should be greeted with strong and enthusiastic support.

Thank you, Mr. Chairman.

VETERANS' ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR OF VETERANS' AFFAIRS,
Washington, D.C., March 12, 1982.

Hon. C. W. (BILL) YOUNG,
House of Representatives,
Washington, D.C.

DEAR MR. YOUNG: Thank you for expressing your interest in our decision to relocate the Florida Loan Guaranty Division from Jacksonville to St. Petersburg, and for the information regarding the total impact of this move.

The consolidation of the Loan Guaranty Division with the St. Petersburg VA Regional Office will allow us to more efficiently use available resources and will result in $589,000 in savings amd improved service to all veterans in Florida, including those who reside in Duval County. The savings are based strictly upon the elimination of duplicate equipment, services, and personnel required by the remote location of the Loan Guaranty Division.

The St. Petersburg Regional Office recently became our largest regional office based on work produced. We do not expect this growth pattern to reverse.

Veteran population statistics clearly show that the vast majority of veterans (including active duty military personnel) reside in the central or southeastern parts of Florida. Only 8.5 percent of the total veterans in Florida reside in Duval County while 16.6 percent live in Dade County. Pinellas and Hillsborough Counties account for another 16 percent of the total veteran population.

Jacksonville will not be without service. Five Loan Guaranty Division employees are being left in Jacksonville to perform field work and provide service to the area.

I am aware that asking employees to relocate under current economic conditions will cause some hardships, but we will do everything possible to make the move as easy as possible. We have already notified all employees of the planned relocation. This will give them at least 10 months advance notice. I would also like to point out that every Jacksonville employee will be offered a job at the St. Petersburg Regional Office. This move is not being made to reduce the number of Loan Guaranty Division employees but to improve the efficiency of the Florida Loan Guaranty Program.

We plan to assist those who cannot move in finding appropriate employment with the federal government in the Jacksonville area. Jacksonville has a large concentration of federal jobs, primarily in the Department of Defense, and the potential for continued employment is excellent for employees who are unable to move to St. Petersburg.

For the employees who do move, we will pay the relocation expenses and will establish a task force composed of community representatives to help make the move and transition as easy as possible.

This move is in no way intended to destroy local 1213 of the National Federation of Federal Employees. The American Federation of Government Employees presently represents all of the bargaining unit employees at the St. Petersburg Regional Office. NFFE, however, has a right to file a clarification of unity petition to determine which union would represent the employees transferred from Jacksonville. The Federal Labor Relations Authority would then issue a decision which would be binding on all parties.

As the Administrator of Veterans Affairs, I am duty-bound to administer the veterans laws of this country as efficiently as possible. I cannot turn my back on an opportunity to make an organization change which will improve efficiency, save $589,000 per year, and pay for itself in less than two years.

Sincerely,

ROBERT P. NIMMO, *Administrator.*

Congress of the United States,
House of Representatives,
Washington, D.C., March 4, 1982.

Hon. John Hammerschmidt,
Ranking Minority Member, Veterans' Affairs Committee,
Rayburn House Office Building, Washington, D.C.

Dear John: I write this letter in full support of relocating the Loan Guaranty Division, $988,210 will be the Veterans Administration's decision to relocate their Loan Guaranty Division from Jacksonville to St. Petersburg, Florida.

Administrator Robert Nimmo decided to consolidate the Loan Guaranty Division with the Regional Office in St. Petersburg, because such a move would result in the annual saving of $589,188, it would eliminate overlapping responsibilities, and provide improved service to the state's veterans. The total cost of relocating the Loan Guaranty Division, $988,210, will be recovered over the first 18 months after the shift because of reduced operating expenses.

By merging the Loan Guaranty Division into the Regional Office, the VA can eliminate 27 duplicate positions in the loan operation, at an annual savings of $355,140. The VA will also make substantial savings in other areas including: $180,543 by reducing office space requirements, $33,505 by eliminating the need for costly telephone and teletype equipment for communication between Jacksonville and St. Petersburg, and $20,000 in employee travel costs.

Florida has the nation's only VA Regional Office where the Division of Veterans Benefits and the Loan Guaranty Division are not jointly located. It should be further stressed that the Jacksonville area will not be without service. Five Loan Guaranty Division employees will remain in Jacksonville to perform field work and to provide service to the area.

The large veteran population in Florida is concentrated in the central and southeastern parts of the state. While Duval County represents 8.5 percent of the veteran population, 16.6 percent reside in Dade County. Pinellas and Hillsborough Counties account for another 16 percent of the state's veteran population.

The state's VA Regional Office, the largest in the nation based on work produced, was established in St. Petersburg because it is the center of the state's veteran population. More than one-third of the state's veterans are within easy commuting distance of the St. Petersburg office. Relocating the Loan Guaranty Division in St. Petersburg will consolidate all of the state's major VA facilities in one central location, which is accessible to the greatest number of veterans.

As I'm sure you know, a suggestion by the Office of Management and Budget last year to transfer some of the duties and responsibilities from the St. Petersburg office to Atlanta was rejected by the Veterans Affairs Committee and the VA. Any further suggetion that the VA is planning such a move would be totally inaccurate.

In a time of fiscal restraint and close examination of all federal spending, this is another example of saving taxpayers' dollars while actually providing better service to veterans throughout the state.

With best wishes and personal regards, I am

Very truly yours,

C. W. (Bill) Young,
Member of Congress.

SPECIAL STUDY OF POSSIBLE RELOCATION OF LOAN GUARANTY DIVISION

(VA Regional Office, St. Petersburg, Fla.)

I. INTRODUCTION

The purpose of this study was to evaluate potential improvements in service and reductions in travel and other costs which could be realized from the relocation of the Loan Guaranty Division from Jacksonville to St. Petersburg, Florida. Possible adverse effects of any such action were also considered.

Veteran population and Loan Guaranty Division workload trends were studied and cost factors related to the relocation of the Division were analyzed.

The study included an analysis of the administrative and clerical support provided to the Division to determine the effect of the 220 mile separation on the number of required support positions. This review included the separate teletype, telephone and transcription services required because of the distance from the Regional Office.

Employee travel costs over the past two years were reviewed to determine whether the location of the Loan Guaranty Division results in additional travel costs for the Regional Office. The relative availability of commercial transportation and proximity of the Division to areas with a heavy veteran population were studied to determine if the location of the Division adversely impacts on service.

Space, which has been a major problem in the Regional Office for several years, was a significant factor in the study. The future availability of space in the Federal Building was explored along with the possibility of leasing space within a block of the Regional Office.

The following is a "Summary of Findings", "Conclusions", and "Recommendations" for specific actions which should improve service and reduce cost.

II. SUMMARY OF FINDINGS

A. VETERAN POPULATION IN FLORIDA

The large veteran population in Florida is concentrated in two geographical areas in the central and southeastern parts of the state. The rapidly growing central area stretches across Central Florida from Pinellas County in the west to Brevard County in the east and includes Hillsborough, Orange, and Polk Counties. These five counties, which account for 29 percent of all veterans in Florida, experienced substantial increases in veteran population between September 30, 1977 and March 31, 1981. During this period, veteran population in Brevard County grew by 33.3 percent, Orange County by 30.5 percent, Hillsborough County by 17.8 percent, Pinellas County by 13.9 percent, and Polk County by 6 percent.

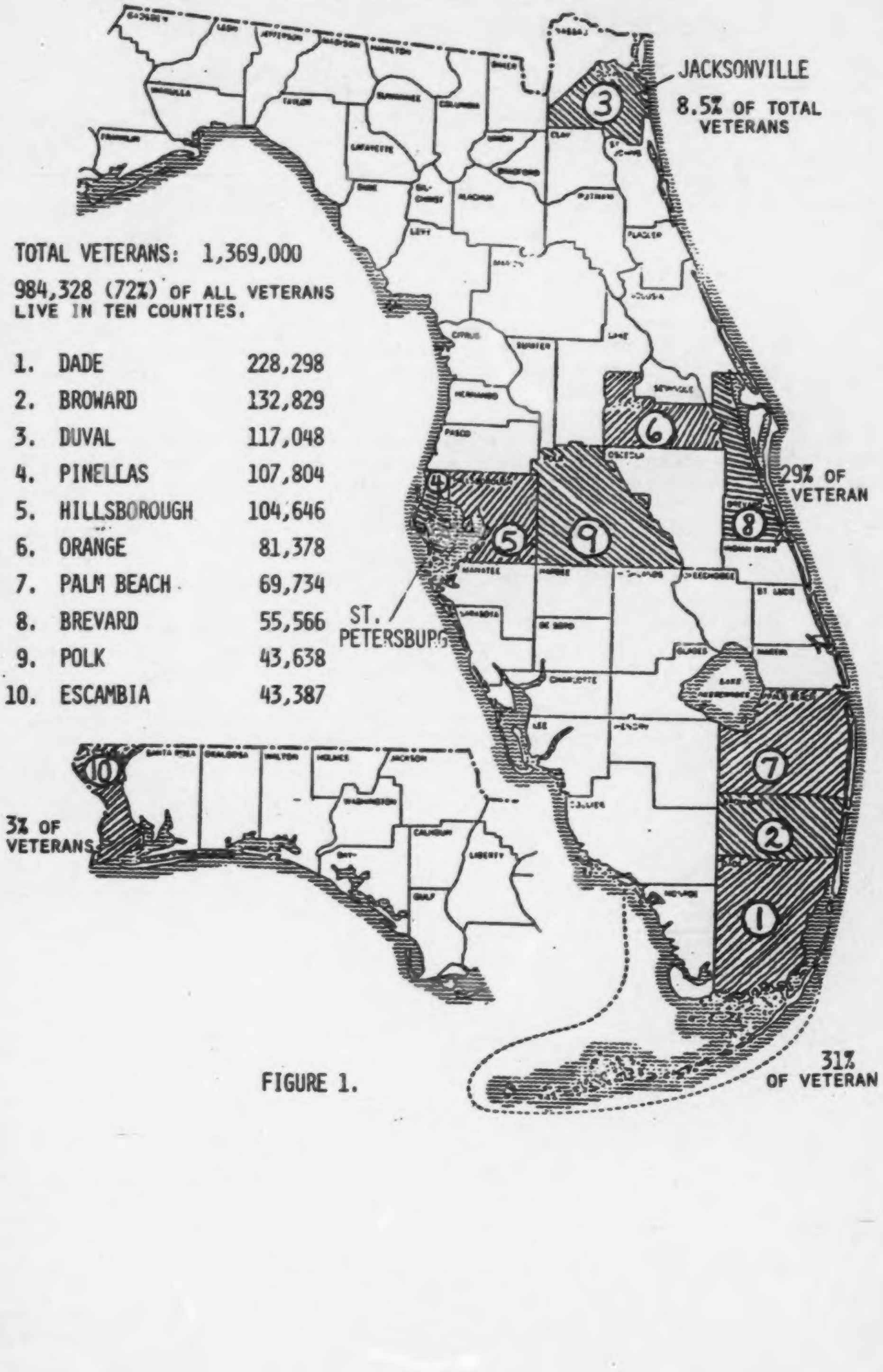
The southeastern area, which accounts for 31 percent of the Florida veterans, is composed of Dade, Broward, and Palm Beach Counties. During the same 1977 to 1981 period, these counties experienced veteran population gains (losses) of (1 percent), 18.3 percent and 10.4 percent respectively.

Duval County, where the entire Loan Guaranty Division is located, experienced a 22.2 percent increase during the 1977-1981 period but accounts for only 8.5 percent of the total Florida veteran population.

A much smaller concentration of the veteran population, 3 percent, is located in the northwest corner of the state in Escambia County. This area increased by 16.6 percent in veteran population during the above period.

Of the total veteran population in Florida, less than 15 percent is within commuting distance of the Loan Guaranty Division in Jacksonville. In contrast, the Regional Office in St. Petersburg is within commuting distance of approximately one-third of all veterans and has excellent commercial transportation connections to the southeastern corner of the state and the large veteran population in that area. (See Figure 1.)

RANK OF TOP TEN FLORIDA COUNTIES BY VETERAN POPULATION


JACKSONVILLE
8.5% OF TOTAL VETERANS
29% OF VETERAN
ST. PETERSBURG
3% OF VETERANS
31% OF VETERAN
3
6
4
5
9
8
7
2
1
10

TOTAL VETERANS: 1,369,000

984,328 (72%) OF ALL VETERANS LIVE IN TEN COUNTIES.

1.	DADE	228,298
2.	BROWARD	132,829
3.	DUVAL	117,048
4.	PINELLAS	107,804
5.	HILLSBOROUGH	104,646
6.	ORANGE	81,378
7.	PALM BEACH	69,734
8.	BREVARD	55,566
9.	POLK	43,638
10.	ESCAMBIA	43,387

FIGURE 1.

B. GENERAL POPULATION TRENDS

Florida was one of the most rapidly growing states in the nation between 1970 and 1980. While the United States population grew by 11.4 percent, Florida's population grew by 43.4 percent. Only Nevada (63.1 percent) and Arizona (53.1 percent) grew more rapidly. Florida's absolute population increase of 2,948,574 was also third largest in the nation, trailing only California's 3,697,493 and Texas's 3,029,728. Florida was the only large state (greater than 3 million) to grow by more than 30 percent.

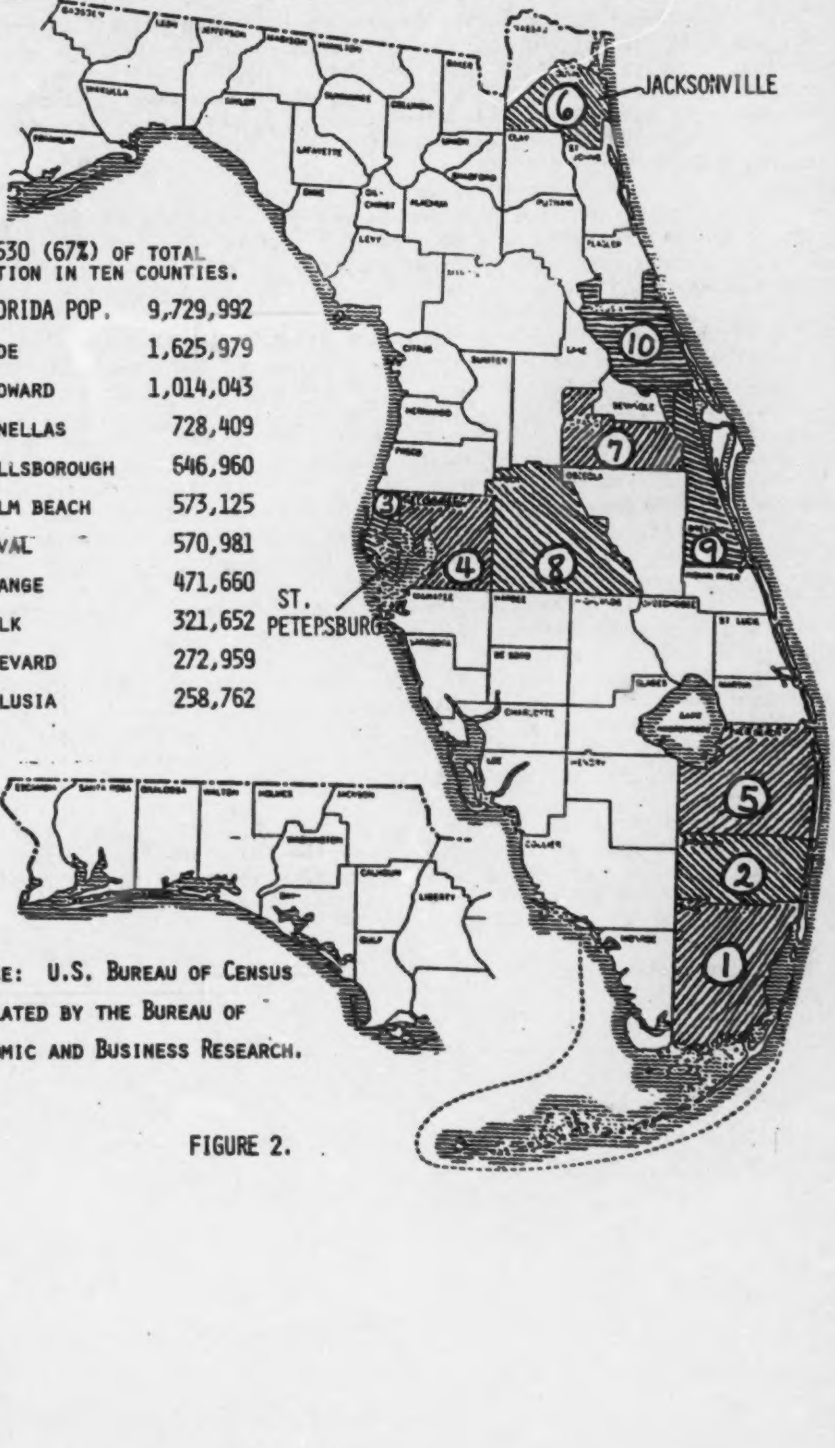
While six Florida counties lost population between 1960 and 1970, none lost population between 1970 and 1980. All but five of Florida's sixty-seven counties grew by more than 11.4 percent, the decade growth rate for the United States as a whole.

The distribution of Florida's population growth throughout the state was not uniform however. The southern and central regions grew much more rapidly than the northern region. The three most rapidly growing counties were Citrus, Hernando and Pasco, all coastal counties immediately above the Tampa-St. Petersburg area. Each of these counties grew by more than 150 percent. Also growing rapidly were Flagler and Martin Counties on the Atlantic Coast; Collier, Charlotte and Lee Counties on the lower Gulf Coast; Seminole and Osceola Counties in the central inland region; and Clay County near Jacksonville. Each of these counties grew by more than 95 percent. Clay County was the only northern county to rank among the ten most rapidly growing counties in the northern region: Gulf, Gadsden, Duval, Franklin, Madison, Hamilton, Jackson and Escambia. Each of these counties grew by less than 14 percent between 1970 and 1980.

In terms of housing units, Duval County grew by only 30.3 percent between 1970 and 1980 (the lowest percent increase in the state) while Pinellas and Hillsborough Counties grew by 64.8 percent and 56.4 percent respectively. Six other counties on the West Coast, all within commuting distance of St. Petersburg, grew by more than 150 percent in total housing units.

If these trends continue, and we have no indication to expect a significant change, the central and southern parts of the state should represent an even larger percentage of the total population and total housing units. (See Figures 2 and 3.)

RANK OF TOP TEN FLORIDA COUNTIES BY POPULATION SIZE: APRIL 1, 1980



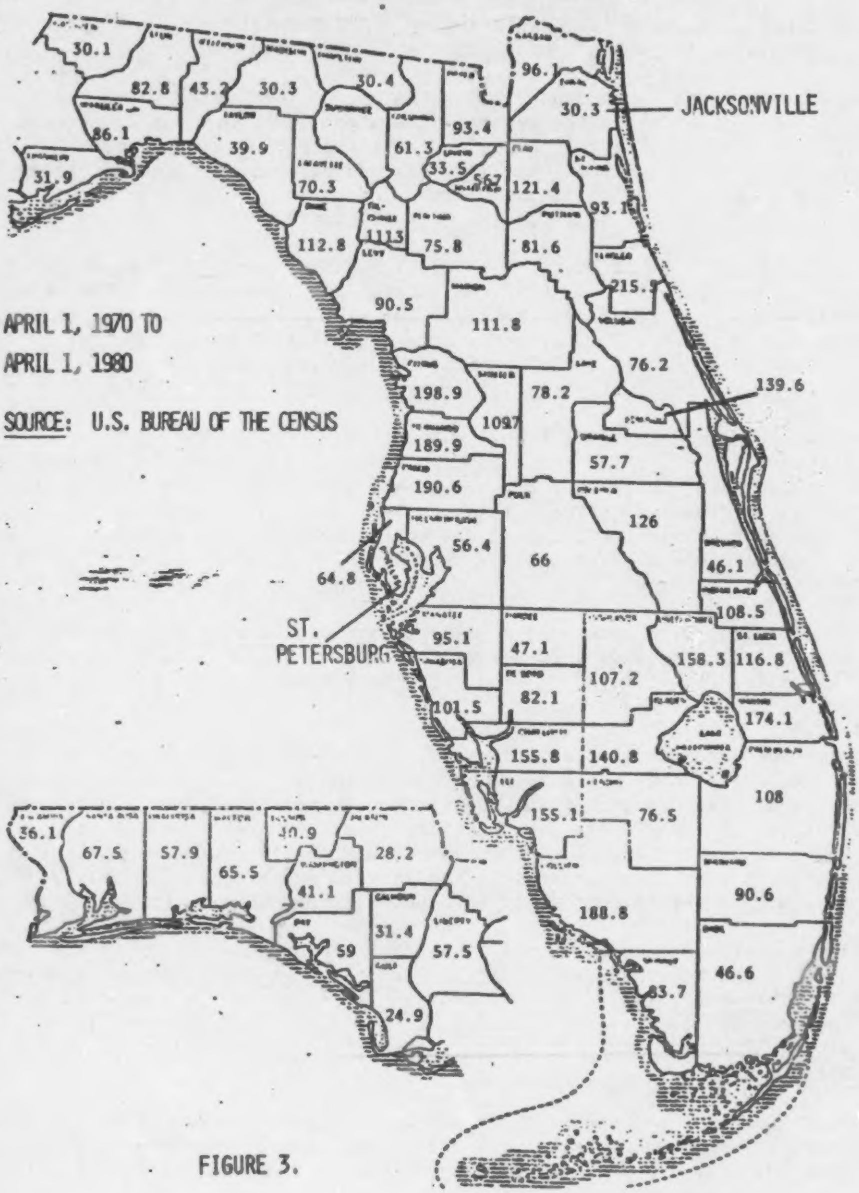
6,484,530 (67%) OF TOTAL POPULATION IN TEN COUNTIES.

	FLORIDA POP.	9,729,992
1.	DADE	1,625,979
2.	BROWARD	1,014,043
3.	PINELLAS	728,409
4.	HILLSBOROUGH	646,960
5.	PALM BEACH	573,125
6.	DUVAL	570,981
7.	ORANGE	471,660
8.	POLK	321,652
9.	BREVARD	272,959
10.	VOLUSIA	258,762

SOURCE: U.S. BUREAU OF CENSUS
TABULATED BY THE BUREAU OF
ECONOMIC AND BUSINESS RESEARCH.

FIGURE 2.

PERCENT INCREASE IN HOUSING UNITS IN FLORIDA.


30.1
82.8
43.2
30.3
30.4
96.1
30.3
JACKSONVILLE
86.1
39.9
61.3
93.4
31.9
70.3
33.5
567
121.4
93.1
112.8
1113
75.8
81.6
215.5
90.5
111.8
76.2
139.6
198.9
78.2
1097
189.9
57.7
190.6
126
56.4
66
64.8
46.1
108.5
ST. PETERSBURG
95.1
47.1
158.3
116.8
107.2
82.1
101.5
174.1
155.8
140.8
108
155.1
76.5
36.1
67.5
57.9
65.5
40.9
28.2
41.1
90.6
31.4
59
57.5
188.8
46.6
24.9
83.7

APRIL 1, 1970 TO
APRIL 1, 1980

SOURCE: U.S. BUREAU OF THE CENSUS

FIGURE 3.

C. LOAN GUARANTY DIVISION WORKLOAD

Of the total guaranteed loans outstanding in Florida (200,539), 77 percent are concentrated in just ten of Florida's 67 counties.

A three county area in the southeastern corner of the state, which represents 31 percent of the total veteran population, accounts for 26 percent of all outstanding guaranteed loans. During the period from October 1, 1979 to June 30, 1981, this area (Dade, Broward and Palm Beach Counties) generated only 22 percent of guaranteed loans, indicating a slight decline in overall activity in the southeastern part of Florida.

The four central Florida counties of Pinellas, Hillsborough, Orange and Brevard account for 29 percent of the veteran population but only 26 percent of total guaranteed loans outstanding. During the period from October 1, 1979 to June 30, 1981, however, this area generated 30 percent of the total loans guaranteed. In fact, Hillsborough County led the state during this period in generating guaranteed loan applications.

Duval County, where the entire Loan Guaranty Division is located, has only 8.5 percent of the total veteran population but accounts for 12.7 percent of all outstanding guaranteed loans. During the October 1979 to June 1981 period, the percentage of total loans guaranteed which originated in this area dropped to 11 percent, but Duval County presently ranks first in properties on hand and outstanding portfolio loans and second in total guaranteed loans outstanding.

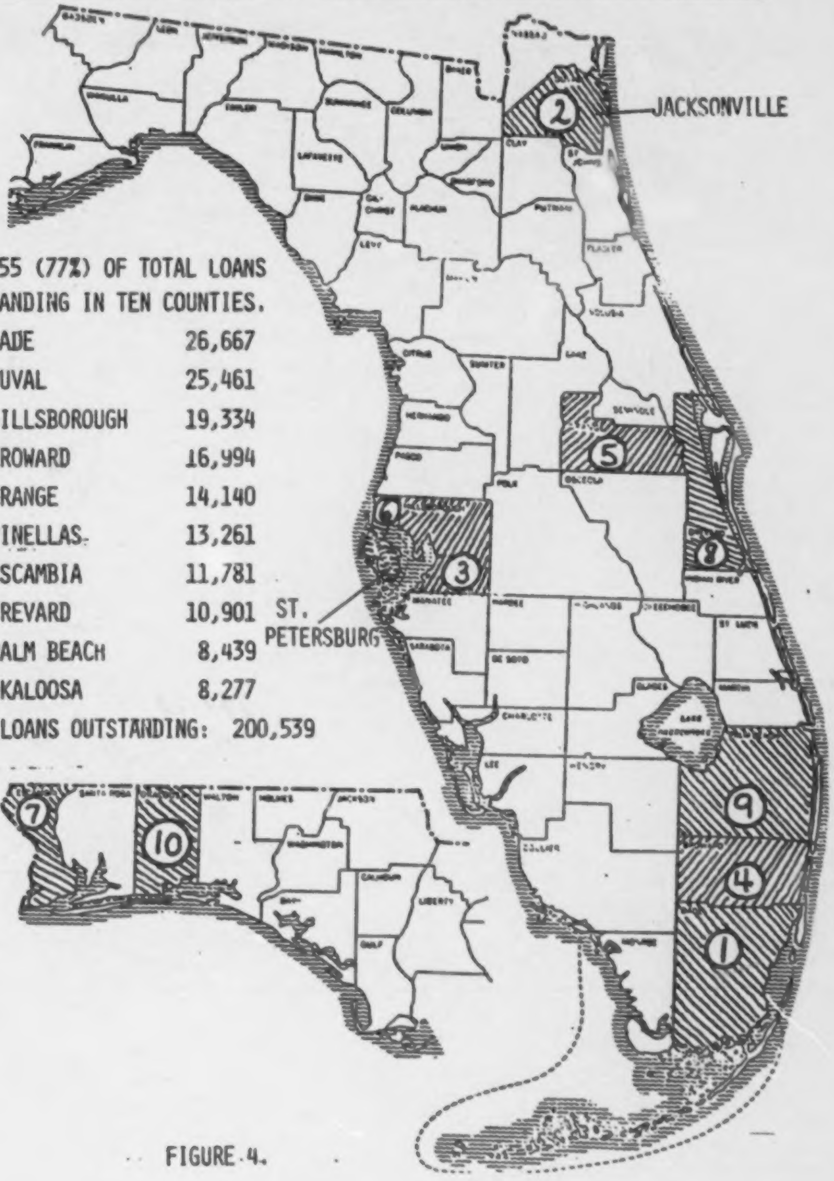
The fourth area which generates a smaller part of the Loan Guaranty business is located in the northwest corner of the state. The two counties, Escambia and Okaloosa, account for 4.4 percent of the veteran population and 10 percent of outstanding guaranteed loans.

Although the Jacksonville commuting area accounts for 18.2 percent of the total cumulative loans guaranteed, it generated only 14.3 percent of the loans guaranteed during FY80 and the first nine months of FY81. During this same period, the St. Petersburg commuting area accounted for 38.6 percent of the total loans guaranteed. This is a substantial increase from the 29 percent of total cumulative loans guaranteed which this area has produced and indicates a significant shift in population and housing trends.

Another significant factor is the level of the program activity in the immediate area of the Loan Guaranty Division. Even though Duval County represents only 8.5 percent of the veteran population in the state, it accounted for 15.7 percent of cumulative guaranteed loans closed, 12.7 percent of outstanding guaranteed loans, 21 percent of outstanding portfolio loans, and 24 percent of properties on hand.

From our analysis, it appears that a disproportionate part of Loan Guaranty resources are expended to provide benefits and services in an area which accounts for only 8.5 percent of the total veteran population in the state. (See Figures 4 through 8.)

RANK OF TOP TEN FLORIDA COUNTIES BY: LOANS OUTSTANDING AS OF 6/30/81


JACKSONVILLE
ST. PETERSBURG
1
2
3
4
5
6
7
8
9
10

155,255 (77%) OF TOTAL LOANS OUTSTANDING IN TEN COUNTIES.

1.	DADE	26,667
2.	DUVAL	25,461
3.	HILLSBOROUGH	19,334
4.	BROWARD	16,994
5.	ORANGE	14,140
6.	PINELLAS	13,261
7.	ESCAMBIA	11,781
8.	BREVARD	10,901
9.	PALM BEACH	8,439
10.	OKALOOSA	8,277

TOTAL LOANS OUTSTANDING: 200,539

FIGURE 4.

COUNTY DISTRIBUTION OF CUMULATIVE GUARANTEED LOANS CLOSED
JUNE 30, 1981

TOTAL: 371,641
OUTSTANDING LOANS: (200,539)

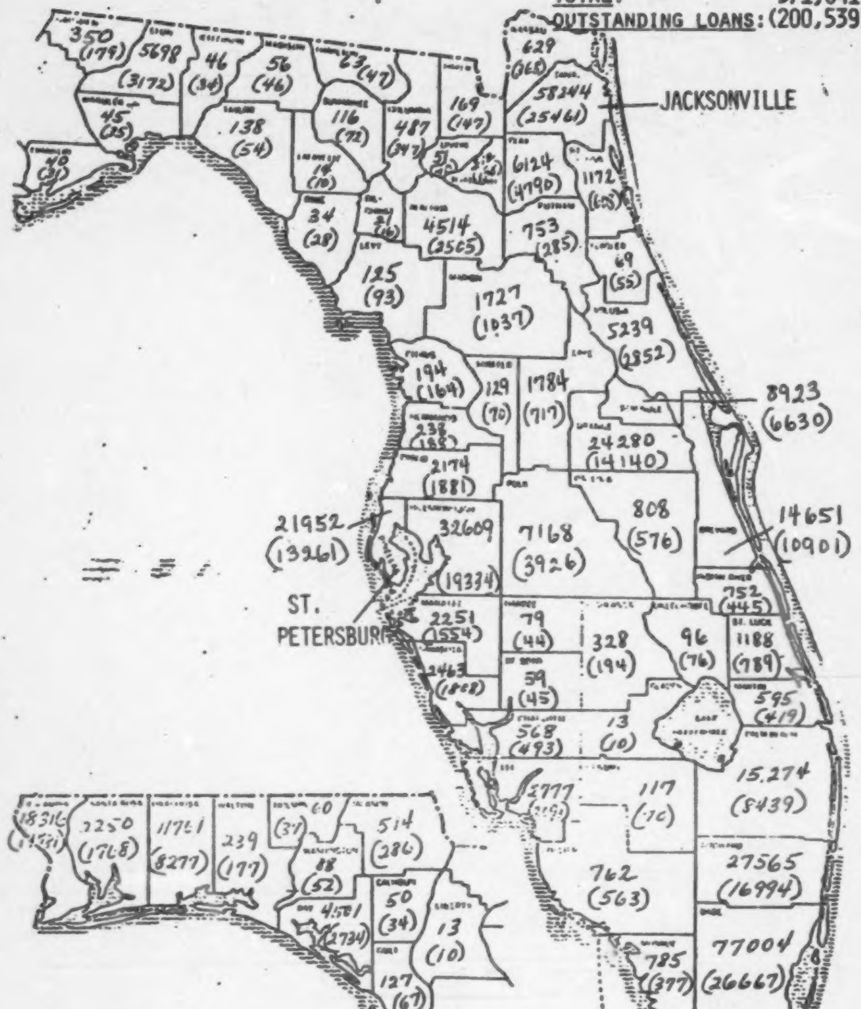
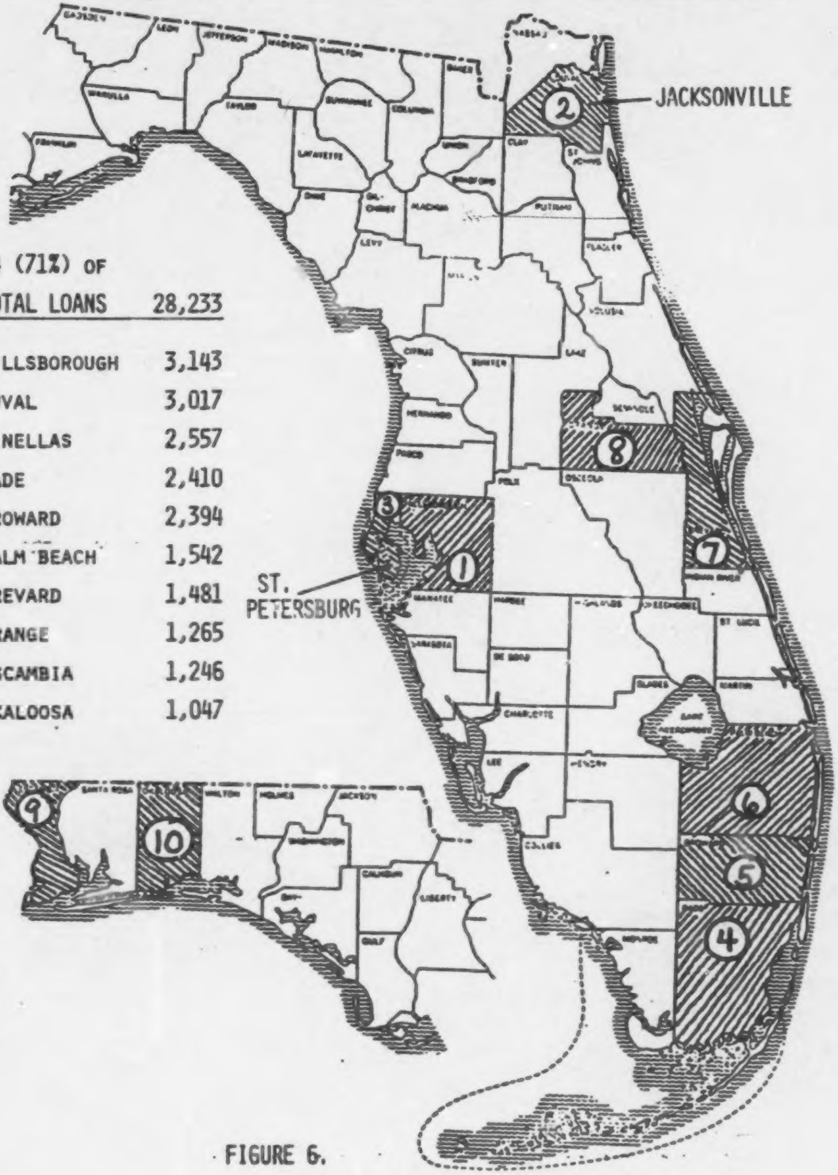

350 (179)
5698 (3172)
46 (34)
56 (46)
63 (47)
169 (147)
629 (368)
58244 (25461)
JACKSONVILLE
45 (35)
138 (54)
116 (72)
487 (342)
14 (10)
6124 (4790)
1172 (605)
34 (28)
4514 (2565)
753 (285)
69 (55)
125 (93)
1727 (1037)
5239 (2852)
194 (164)
129 (70)
1784 (717)
8923 (6630)
24280 (14140)
2174 (1881)
21952 (13261)
32609 (19334)
7168 (3926)
808 (576)
14651 (10901)
ST. PETERSBURG
752 (445)
2251 (1554)
79 (44)
328 (194)
96 (76)
1188 (789)
2463 (1808)
59 (45)
595 (419)
568 (493)
13 (10)
15,274 (8439)
2777
117 (70)
762 (563)
27565 (16994)
785 (377)
77004 (26667)
18316
2250 (1768)
11761 (8277)
239 (177)
(37) 60
514 (386)
88 (52)
4581 (2734)
50 (34)
13 (10)
127 (67)

FIGURE 5.

RANK OF TOP TEN FLORIDA COUNTIES BY LOANS GUARANTEED - 10/1/79 TO 6/30/81


JACKSONVILLE
ST. PETERSBURG
①
②
③
④
⑤
⑥
⑦
⑧
⑨
⑩

20,104 (71%) OF

TOTAL LOANS		28,233
1.	HILLSBOROUGH	3,143
2.	DUVAL	3,017
3.	PINELLAS	2,557
4.	DADE	2,410
5.	BROWARD	2,394
6.	PALM BEACH	1,542
7.	BREVARD	1,481
8.	ORANGE	1,265
9.	ESCAMBIA	1,246
10.	OKALOOSA	1,047

FIGURE 6.

OUTSTANDING PORTFOLIO LOANS (10,248) BY COUNTY 8/21/81

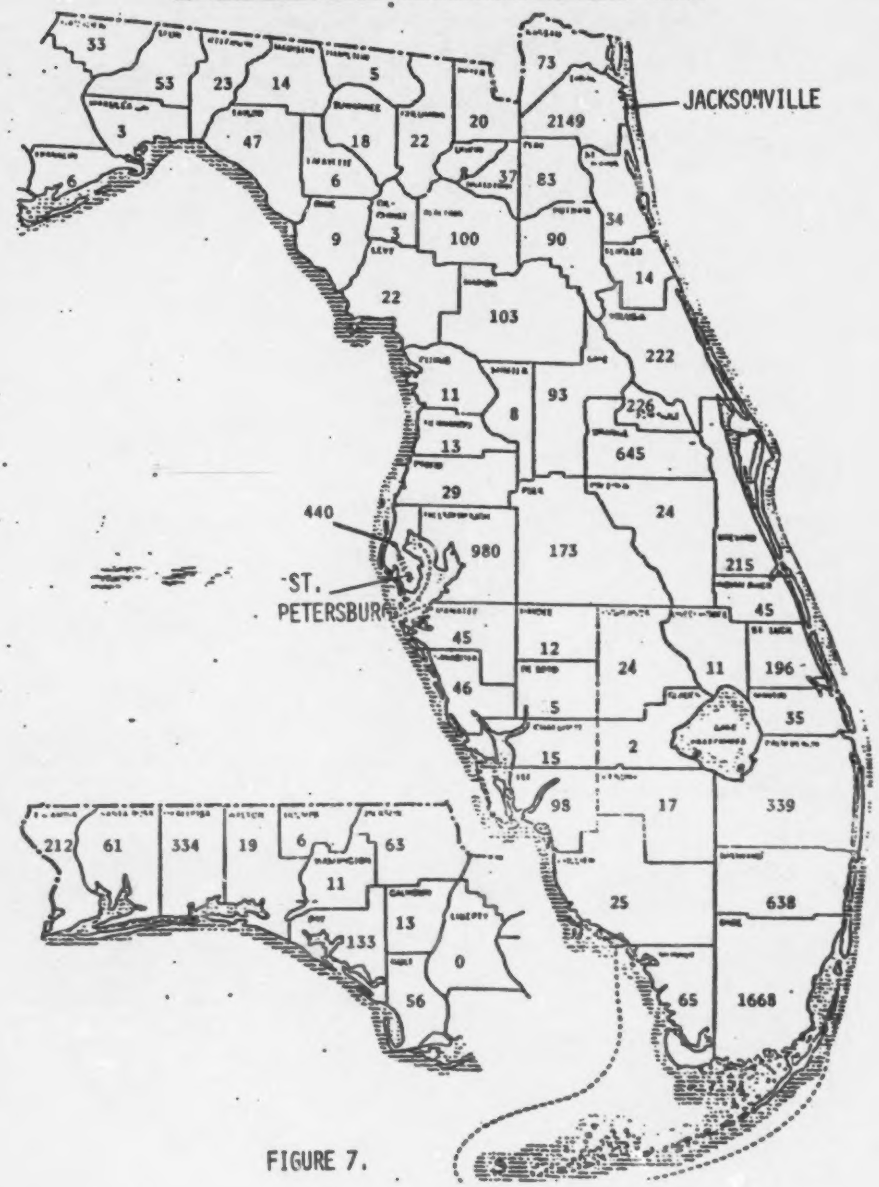

JACKSONVILLE
ST. PETERSBURG
440
33
53
23
14
5
20
73
2149
3
6
47
18
22
37
83
6
9
3
100
90
34
14
22
103
222
11
8
93
226
13
645
29
24
980
173
215
45
45
12
24
11
196
46
5
35
15
2
98
17
339
212
61
334
19
6
63
11
13
133
0
56
25
638
65
1668

FIGURE 7.

PROPERTY MANAGEMENT - PROPERTIES ON HAND 9/4/81

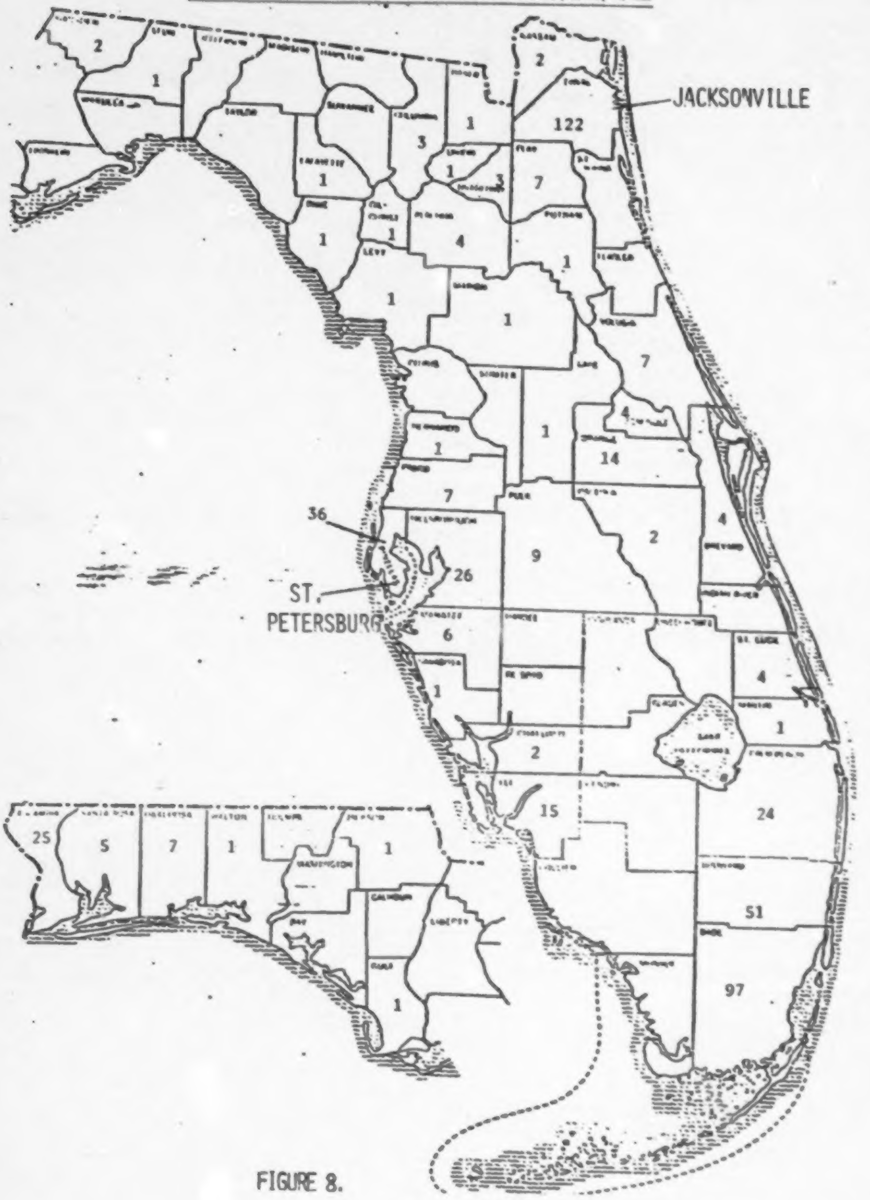

JACKSONVILLE
ST. PETERSBURG
2
1
1
3
1
1
3
2
122
7
1
1
1
4
1
1
1
7
1
4
14
1
7
36
26
9
2
4
6
1
4
1
2
15
24
51
97
25
5
7
1
1
1

FIGURE 8.

D. LOCATION OF REGIONAL OFFICE EMPLOYEES IN FLORIDA

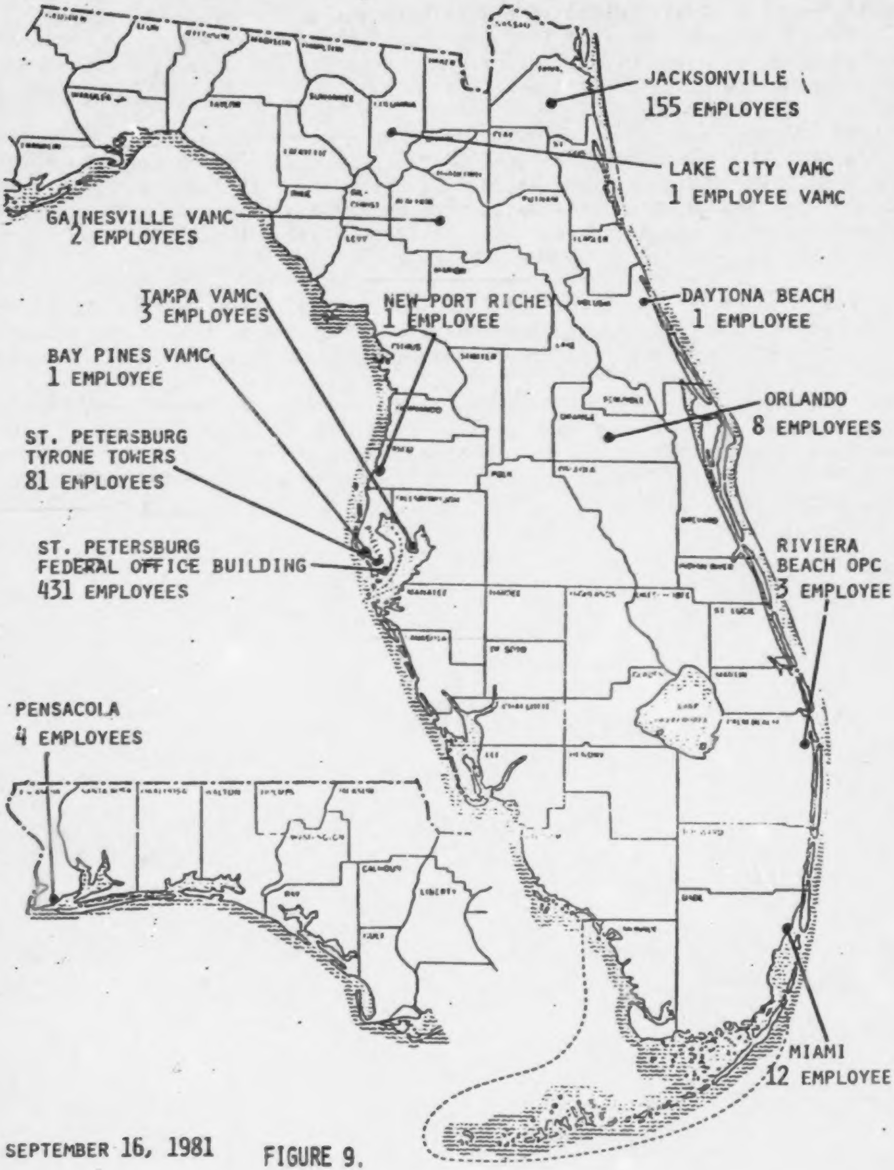
Of the 125 employees presently assigned to the Loan Guaranty Division, 124 are located in Jacksonville, Florida, 220 miles from the Regional Office in St. Petersburg. One construction analyst, who performs routine field work for the C&V Section, is outbased in New Port Richey on the west central coast of Florida. As a result of the separation from the Regional Office, it is necessary to assign 24 administrative and clerical employees to support Loan Guaranty. According to the Division Chiefs involved, twenty-seven of these 149 positions could be eliminated with the total relocation of the Loan Guaranty Divison.

The distance to Jacksonville makes it impractical to transfer resources or positions to accommodate short term fluctuations in workloads between divisions. As a direct result, the Regional Office frequently experiences severe overstaffing or understaffing in Jacksonville relative to the Regional Office with no opportunity to adjust resources. In addition, the separation creates the need for a separate teletype system, a separate and more expensive telephone system and a transcription unit which cannot be consolidated with the Regional Office Centralized Transcription Unit.

Not only does the location of the Loan Guaranty Division require additional administrative and clerical resources, but also adds substantially to employee travel costs and precludes access to the Target System.

While the vast majority of Regional Office employees are in desirable locations relative to the operating requirements of their missions, the Loan Guaranty Division is geographically separated from areas of the state which generate the preponderance of business. (See Figure 9.)

DVB (REGIONAL OFFICE) EMPLOYEES IN FLORIDA


JACKSONVILLE
155 EMPLOYEES
LAKE CITY VAMC
1 EMPLOYEE VAMC
GAINESVILLE VAMC
2 EMPLOYEES
TAMPA VAMC
3 EMPLOYEES
NEW PORT RICHEY
1 EMPLOYEE
DAYTONA BEACH
1 EMPLOYEE
BAY PINES VAMC
1 EMPLOYEE
ORLANDO
8 EMPLOYEES
ST. PETERSBURG
TYRONE TOWERS
81 EMPLOYEES
ST. PETERSBURG
FEDERAL OFFICE BUILDING
431 EMPLOYEES
RIVIERA
BEACH OPC
3 EMPLOYEE
PENSACOLA
4 EMPLOYEES
MIAMI
12 EMPLOYEE

SEPTEMBER 16, 1981 FIGURE 9.

E. EMPLOYEE TRAVEL BY LOAN GUARANTY DIVISION

Of the total business generated by the Loan Guaranty Divison during FY80 and the first nine months of FY81, only 14.3 percent was within commuting distance of the Jacksonville Office. As a result, the overnight travel required by the Division is substantial.

During FY80 and continuing through the first nine months of FY81, 86 percent of the travel performed by the Loan Guaranty Division was on trips to the Tampa-St. Petersburg or Miami regions of the state. In fact, 95 trips were made to the Orlando/Tampa/St. Petersburg/Sarasota area during FY80 requiring more than 333 overnight stays. For the first nine months of FY81, such trips number 51 and involved 179 overnight stays.

Air fare for the trips to the Tampa/St. Petersburg region totaled $5647 in FY80 and $3090 for the first nine months of FY81. In addition, air fares to Miami are 25 percent less from Tampa than Jacksonville.

With the relocation of the Loan Guaranty Division to St. Petersburg, the majority of travel between Jacksonville and Tampa could be eliminated. In addition, the cost of travel to the Miami area could be reduced by at least 25 percent. The savings in air fares and per diem would exceed $20,000. (See Figure 10.)

ANALYSIS OF TRAVEL COSTS
Loan Guaranty Division

	FY 80			FY 81 (9 mos.)		
Section	Total Expenditure	$ Spent Southern Half of Florida	% Spent Southern Half of Florida	Total Expenditure	$ Spent Southern Half of Florida	% Spent Southern Half of Florida
C&V	30,972	26,880	86.8	26,651	20,942	78.6
LS&C	16,091	13.152	81.7	14,595	12,597	86.3
PM	25,359	22,032	86.9	15,289	13.204	86.4
LP*	-	-	-	-	-	-

	FY 80		FY 81 (9 mos.)	
	Jacksonville-Tampa	Jacksonville-Miami	Jacksonville-Tampa	Jacksonville-Miami
TOTAL AIR FARE:	5,647	14,375	3,090	9,592

NOTE: With the relocation of the Loan Guaranty Division, air travel from Jacksonville to Tampa could be eliminated: air fare from Tampa to Miami costs 25 percent less than air fare from Jacksonville to Miami, and some trips could be taken by car.

More available flights/airline connections to and from Tampa than Jacksonville. Air Florida, Eastern, Pan Am, Delta and Republic serve Tampa to Miami. Only Air Florida and Eastern serve Jacksonville to Miami.

FY 80: 95 trips made to Tampa/St. Petersburg/Sarasota area and trips to Orlando of 3 days or less; involved 333 overnight stays.

FY 81: 51 trips and 179 overnight stays in Tampa/St. Petersburg/Orlando area.

*No significant costs were incurred by Loan Processing.

FIGURE 19.

F. SPACE

Space has been a significant problem in the Regional Office for a number of years. In fact, of the employees in St. Petersburg, 81 are housed in leased space (16,000 square feet) seven miles from the Federal Office Building.

In November 1981, however, 10,000 square feet of additional space will become available in the Federal Office Building as outpatient units of the VA Medical Center, Bay Pines, are relocated to that facility from the Federal Building.

The cost per square foot in the Federal Building is currently $8.47 while the cost per square foot is $5.30 in Jacksonville for the 34,844 square feet occupied by Regional Office employees. In the event of relocation of the Loan Guaranty Division, however, a substantial reduction in total employment would result and we would be able to accommodate the entire Loan Guaranty function in only 20,000 square feet of space. Therefore, the total cost of space for the consolidated operation would result in a net saving on space of approximately $15,000 per year for Loan Guaranty operations only.

In addition to the future availability of space in the Federal Office Building, we have surveyed local facilities and have found that 30,000 square feet of office space is available within one block of the Regional Office. Two additional 30,000 square foot parcels are available within four blocks.

To accommodate the relocation of the Loan Guaranty Division, there are two avenues which are available to us. First, and the preferable approach, is for the St. Petersburg Regional Office to adopt the concept of storing records (primarily claims and Loan Guaranty folders) in a location outside the Regional Office, similar to the concept which was contemplated in April, 1981, when DVB centralization was considered. Our records survey revealed that approximately 30,000 square feet of space is required to store the records of this Regional Office. As stated above, 30,000 square feet are available within downtown St. Petersburg, at a cost, if developed specifically for records storage, of approximately $4.00 per square foot per year. Remote file storage would not only save dollars, but would allow us to locate our remotely located Finance and Vocational Rehabilitation and Counseling Divisions within the St. Petersburg Federal Building and to bring the entire Loan Guaranty Division to St. Petersburg. Remote location of claims folders is no real problem to this Regional Office, in fact, we have been operating on a remote folder basis for over four years with the Finance and Vocational Rehabilitation and Counseling Divisions located seven miles distant. In addition, a real consideration is the maturing of our Target System which will lead to fewer folder pulls in the future. (See Figure 11.)

A second approach would be to acquire space, now available in downtown St. Petersburg, and locate the employees of Loan Guaranty, Vocational Rehabilitation and Counseling, and Finance Division in the space. This is less desirable in that it would be more costly, in the range of $9.00 to $14.00 per square foot, per year.

DM&S has not yet decided the issue of the location of their Outpatient Clinic now in the St. Petersburg Federal Building. The new Bay Pines VA Medical Center facility will not be completed until 1985, and the Director has been told that a decision will be made at that time as to relocating the Outpatient Clinic to Bay Pines. However, in view of the past reluctance of DM&S to relocate their Outpatient Clinic, we have not included that factor in current plans.

COST SAVINGS ANTICIPATED
FROM
REMOVING FILES FROM
FEDERAL OFFICE BUILDING

COST

COST OF ADDITIONAL 10,000 SQUARE FEET IN FEDERAL OFFICE BUILDING	$ 84,700
COST OF REMOTE SPACE FOR FILES, 30,000 SQUARE FEET	120,000
TOTAL	$204,700

SAVINGS

REDUCTION OF 31,360 SQUARE FEET IN JACKSONVILLE	$166,206
ELIMINATION OF 16,225 SQUARE FEET IN TYRONE TOWERS	219,037
TOTAL	$385,243

NET SAVING = $180,543

BY REMOVING THE CLAIMS FILES FROM THE FEDERAL OFFICE BUILDING AND CONSOLIDATING THE LOAN GUARANTY, FINANCE AND VOCATIONAL REHABILITATION AND COUNSELING DIVISIONS IN THE BUILDING, WE WOULD REALIZE AN ANNUAL SPACE SAVING OF $180,543 PER YEAR.

FIGURE 11

G. RELOCATION COSTS AND BENEFITS

The potential benefits of relocating the Loan Guaranty Division are significant. With the total relocation of the Division (less five positions in Jacksonville to carry out field work), it would be possible to eliminate the teletype operation, reduce telephone costs, reduce employee travel costs and eliminate twenty-seven positions. The elimination of twenty-seven positions would enable the Station to reduce overall space requirements and would result in a reduction in total space costs even though the space in St. Petersburg is more expensive than Jacksonville. The estimated annual cost savings of these actions would be $589,188.

In addition to cost savings, we would gain increased managerial flexibility in assigning limited resources to fluctuating workloads throughout the Regional Office and would be able to provide improved service to areas in central and south Florida with large veteran populations.

Managerial flexibility is a broad general term which needs explanation. First and foremost, the remote location of our Loan Guaranty Division is costly in terms of employment ceilings and operating dollars. Quite simply, equal or improved service could be given if the Division were colocated with the rest of the Regional Office. Presently, the ability of the Director to reassign employees across division lines to meet heavy workloads is taken away. Specifically, the interest rates for VA guaranteed loans today is 16½ percent. That high rate means that we are receiving about one-third the loan applications we received during peak periods; consequently, we are overstaffed in the Loan Guaranty Division. Of course, the Director has imposed a hiring freeze on the Loan Guaranty Division, but the employees who are not being utilized at total effectiveness could well be used in other programs if all our divisions were colocated. It is not feasible to detail GS-4 clerks to a location 220 miles distant with the attendant travel and per diem costs.

Daily problems arise due to the remoteness of the Loan Guaranty Division. Recently, we drafted our new Station Merit Promotion Plan. That act required that we enter negotiations with two labor unions, AFGE in St. Petersburg and NFFE in Jacksonville. The negotiations were lengthy and difficult in that we had to reach agreement with the two unions.

Total cost of the implementation of the relocation is estimated at $998,210. This includes the cost of transporting equipment, installation of 50 telephones in St. Petersburg, translocation of employees and severance pay for employees who refuse to move.

In addition to costs, it is possible to experience temporary program disruptions. Although it is impossible to determine the exact number of employees who could not, or would not move, we would expect to experience substantial employee losses in the total relocation. This will vary by section because of the varied composition of the work force and the advance notice period we expect to provide.

III. CONCLUSIONS

A. The location of the Loan Guaranty Division, 220 miles from the St. Petersburg Regional Office, adds $589,188 per year to the operating and travel costs of the Regional Office.

B. As a result of our inability to shift resources in response to fluctuating Loan Guaranty workloads, we frequently experience severe over or understaffing situations in the Division.

C. The Duval County area, with only 8.5 percent of the total veteran population in the state of Florida, generates a disproportionate amount of business and receives more than its share of service simply because the Loan Guaranty Division is located there.

D. The remote location prevents access to the Target system or utilization of other Regional Office resources by the Loan Guaranty Division.

E. The total relocation of the Loan Guaranty Division from Jacksonville to St. Petersburg, Florida would enable us to:

1. Eliminate the teletype system in Jacksonville for an annual saving of $12,595. This work could be absorbed at the Regional Office.

2. Realize a saving between telephone service in St. Petersburg and Jacksonville of $20,910 per year resulting from fewer and less expensive telephones.

3. Eliminate duplicate or unnecessary support positions for an annual saving of $355,140.

4. Reduce employee travel costs by $20,000.

5. Improve service to areas in central and south Florida with a large veteran population.

6. Improve management ability to shift Regional Office resources in response to fluctuating workloads.

F. The total relocation of the Loan Guaranty Division would cost approximately $998,210.

G. Other than the difficulty in implementing the total relocation of the Loan Guaranty Division, we could not identify any cost or operating reasons for leaving the Division in Jacksonville. (See Figure 12.)

SUMMARY OF RELOCATION COSTS AND ANNUAL SAVINGS PROJECTION FROM THE RELOCATION OF TOTAL LOAN GUARANTY DIVISION

TOTAL RELOCATION COST SUMMARY

TRANSLOCATION OF EQUIPMENT	$ 22,535
INSTALLATION OF TELEPHONES	3,675
TERMINAL LEAVE/SEVERANCE	136,000
TRANSLOCATION OF EMPLOYEES	801,000
TOTAL COST	$963,210

RELATED COSTS

TRANSFER OF ADJUDICATION FILES TO REMOTE 30,000 SQUARE FOOT LOCATION	$ 20,000
CONSOLIDATION OF FINANCE AND VR&C DIVISIONS IN THE FEDERAL OFFICE BUILDING	15,000
TOTAL COST	$ 35,000

ANNUAL COST SAVINGS

TELETYPE	$ 12,595
TELEPHONE	20,910
EMPLOYEE TRAVEL	20,000
EXCESS POSITIONS	355,140
SPACE	130,543
TOTAL ANNUAL SAVINGS	$589,188

FIGURE 12

IV. RECOMMENDATIONS

TOTAL RELOCATION OF THE LOAN GUARANTY DIVISION

We recommend the total relocation (less five positions) of the Loan Guaranty Division from Jacksonville to St. Petersburg, Florida. The five positions would perform Loan Guaranty field work in the northern and northwestern sections of Florida in order to provide service to veterans in these areas and to provide reduced employee travel requirements.

In order to accommodate the relocation of the Loan Guaranty Division to the Federal Office Building in St. Petersburg, we recommend the requisition of 30,000 square feet of space which is available near the Federal Building for the purpose of relocating all claims and Loan Guaranty folders in this location. This remote file storage would not only save dollars but would allow us to consolidate the Finance and Vocational Rehabilitation and Counseling Divisions within the St. Petersburg Federal Building as well as the Loan Guaranty Division.

V. IMPLEMENTATION PLAN

If our recommendations are approved, we are confident that the consolidation can be completed within 12 months of approval. Of course our schedule is contingent upon the cooperation of the General Services Administration in the acquisition of the 30,000 square feet of file storage space.

We will use a phased approach in the relocation of the Loan Guaranty, Finance, and Vocational Rehabilitation and Counseling Divisions. This should provide an orderly transition and prevent any disruption in service. (See Figure 13.)

SEQUENCE OF EVENTS
FOR CONSOLIDATION

D = Date of decision to implement consolidation.

D + 7 days	Notify: Members of Congress and media. Service organizations. Housing industry Labor organizations. Employees. Office of Personnel Management and request placement assistance. Initiate space request.
D + 10	Conduct employee information sessions and establish moving and placement assistance system. Begin negotiations on impact and procedures with the N.F.F.E. and A.F.G.E. locals. Initiate coordination with DM&S Supply Service.
D + 14	Begin development of realignment plan for Federal Office Building.
D + 90	Initiate work orders for Target and space modifications and changes in telephone service.
D + 120	Begin design of file storage space. (Contingent upon action by GSA.)
D + 150	Begin Relocation of Adjudication claims folders.
D + 170	Begin Realignment of Adjudication Division.
D + 200	Begin Phased Move of Loan Guaranty Division to St. Petersburg.
D + 240	Move Finance and Vocational Rehabilitation and Counseling from Tyrone Towers to F.O.B.

FIGURE 13

PREPARED STATEMENT OF ALBERT W. GLASS, DIRECTOR, LOAN GUARANTY SERVICE, VETERANS' ADMINISTRATION

Mr. Chairman and members of the subcommittee, it is a pleasure to have the opportunity to appear before you and discuss the operation of the VA housing program. I have with me today Robert M. O'Toole, Deputy Director, Loan Guaranty Service, and James P. Kane, Assistant General Counsel.

Mr. Chairman, the high interest rates which have prevailed for over two years have caused a significant reduction in the number of veterans who are making use of their VA home loan benefits to purchase homes for themselves and their families. These high rates, along with the increased cost of housing in general, have put home ownership out of reach for many veterans.

In the first two years of the 1980's an average of 213,000 loans were guaranteed for an average annual volume of $11 billion compared to the average of 322,000 loans guaranteed per year in the 1970's with an average annual volume of $16 billion.

This volume reflects the fact that the VA home loan activity is governed primarily by the cost and availability of money for mortgage investment. In response to market interest rates the VA maximum interest rate has reflected an almost constant rise from the 9½ percent which prevailed at the beginning of 1979 to the highest level reached in September of 1981 of 17½ percent. Since then there has been some improvement with the current rate now at 15½ percent.

Of those veterans who were able to obtain loans in 1981, 66 percent did so on a no-downpayment basis with an average purchase price and loan amount of $50,901. For those veterans who obtained loans with a downpayment, the purchase price averaged $74,221 with an average loan amount of $64,285.

In the mobile home loan program in Calendar Year 1981 veterans obtained 9,631 loans, the highest annual total since the beginning of the program. This increase is an indication of veterans seeking affordable housing. This activity occurred despite interest rates that ranged up to 19½ percent. The average purchase price for mobile homes was $20,914 with an average loan amount of $20,046. The increased maturities which were authorized by legislation effective in October 1981, should permit further increases in the mobile home loan program.

Of the total loans guaranteed in Calendar Year 1981, 51 percent went to Vietnam veterans, 9 percent to Post-Korean veterans, 16 percent to servicepersons, 5 percent to World War II veterans and 3 percent to Korean conflict veterans. Ten percent went to veterans using restored entitlement, and 6 percent to Post-Vietnam veterans and surviving spouses.

From the beginning of the program to the close of Calendar Year 1981, over 11.2 million veterans have utilized their VA home loan benefits to become homeowners. This has involved mortgage credit totaling over $200 billion.

Mr. Chairman, I would now like to review loan servicing efforts and property management functions, two very important continuing activities of the VA. The rising energy costs, high unemployment, and the record interest rates have caused an increase in loan defaults and the property inventory.

VA assists those veterans who after obtaining their homes, find themselves in temporary financial difficulty and thus default on their home loan payments. VA's commitment to assist veteran homeowners in such circumstances is a strong and continuing one. As a part of this effort, financial counseling provides for a comprehensive review of the borrower's financial situation concerning net income, total expenditures, net worth, suggested areas for which expenses can be reduced or income increased, the arrangement of a family budget, and recommendations to lenders on the terms for any contemplated repayment agreement on a defaulted loan.

It is the policy of the VA to encourage lenders to extend all reasonable forebearance in the event a borrower becomes unable to meet the terms of his or her loan. Its purpose is to help veteran borrowers retain their homes, without prejudicing the rights of lenders under their contract of guaranty.

Nevertheless, defaults and foreclosures have increased appreciably. Defaults reported reached 149,000 for the twelve months ending February 1982. Claims filed by lenders totaled over 14,000 for the same period, up from a range of 11,000 to 12,000 for the previous two-year period.

High interest rates and the economic climate have also caused a sharp increase in the acquired property inventory. The higher number of foreclosures, coupled with lower sales because of these factors, has caused the inventory to rise to over 14,000 properties, up from a low point in December 1980 of just under 9,000 properties. Property sales for Calendar Year 1981 totaled 9,953 compared with 11,329 the prior year.

Mr. Chairman, I recognize that the foregoing activity which I have cited is a disappointment to this committee which has for so many years enacted legislation to improve the opportunity for veterans to acquire homes with their VA loan benefit. I can assure you that the program is sound and the underlying legislation is adequate to serve veterans' housing needs at this time. In this regard, this committee was responsible for the enactment of legislation which removed the delimiting dates for all veterans and thus their entitlement to home loan benefits is good until used. While many have had to postpone homeownership the opportunity remains for the future. With the recent decline in inflation rates, the personal income tax cuts, the anticipated lower interest rates, and the prospects for other improvements in the economy in the not too distant future, veterans should be able to acquire homes with their VA benefit at a rate approaching the high levels of past years. Likewise, defaults and claims along with the property inventory should return to the favorable levels which have usually been experienced.

Also, legislation enacted last year authorized the VA to guarantee loans with graduated payment features. Graduated Payment Mortgages are amortized in a manner which allows lower initial monthly payments than traditional fixed-payment mortgages. We have implemented the provision wherein the monthly payment is scheduled to increase annually for the first five years at 7½ percent per year after which the monthly payment levels off and stays the same for the remainder of the loan. The reduction in the monthly payments in the first several years is accomplished by deferring payment of a portion of the interest due on the loan each month and by adding that interest to the principal balance. This causes the outstanding loan balance to increase during the graduation period, an effect known as negative amortization. Although compared to a fixed-payment mortgage, the monthly payments are higher on a graduated payment mortgage after the leveling-off period has been reached, the lower initial payment on which qualification for the loan is based is of benefit to those veterans who otherwise could not afford to purchase housing at higher monthly payments. However, because of the high interest rates which have prevailed there has been very little activity thus far. We are confident though, that activity in this type of loan amortization will be increasing.

Finally, I am sure the committee is interested in the very important housing program for the severely disabled veterans, the Housing Grant Program. In Fiscal Year 1981, 527 veterans eligible for the maximum $23,500 Specially Adapted Housing Grant were approved for such grants to acquire homes specially adapted to their needs. In October 1980, legislation was enacted which authorized grants up to $5,000 to blind veterans and those veterans who had lost or lost the use of both upper extremities. Cumulatively through Calendar Year 1981, 182 veterans have received grants averaging $4,067 each.

Mr. Chairman this concludes my statement. I will be pleased to answer questions which the members might have.

PREPARED STATEMENT OF ROBERT W. KARPE, PRESIDENT, GOVERNMENT NATIONAL MORTGAGE ASSOCIATION, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. Chairman, Members of the Subcommittee, I appreciate the opportunity to appear before you today, to discuss the effects of the Administration's housing proposals on the Veterans Home Loan Guaranty program.

For the purposes of this discussion, it seems to me particularly important that we include in this record an exact statement of the limited yet critical part that GNMA has played in the mortgage financing markets. We will then be in a position to have a clear idea of what effects the Administration's proposed changes will have.

First of all, it must be understood that the long-term solution for the institutions which GNMA serves, as well as the recovery of the Housing Industry in general, lies with the overall economic recovery. Only through long-term growth of the private sector which the President's Economic Recovery Program seeks to stimulate can the nation experience the type of long-term prosperity we all desire.

For a little more than twelve years now, GNMA has essentially acted as a surety in the mortgage securities market. GNMA pioneered the program by which mortgage originators issue securities backed by mortgages, passing through to the security holders the principal and interest payments on the mortgages. Such securities would have had little chance of successful development, but for the GNMA guarantee of timely performance. With that guarantee, GNMA securities have become the conduit, as it were, for securities market funds being tapped by the mortgage market.

I submit that this pioneering role has been an important one, and a market-oriented one, for there is no reason, aside from market imperfections that mortgages should not compete actively with securities for savings flows. GNMA's role in these twelve years has been to break down those market imperfections, bringing benefits to securities holders and mortgage borrowers alike. In so doing, GNMA alone has not added significantly to the contingent liabilities of the Federal Government, for we have been limited to assuring performance of issuers on securities backed by pools of mortgages already guaranteed by the Federal Housing Administration and the Veterans Administration.

Over twelve years, we have had to write off against reserve only about $10 million on some $130 billion of securities, an astonishingly good record which says forcefully that those who have borrowed through this program are fully credit-worthy except in some very rare instances indeed. In contrast, we have collected fees and investment earnings totalling more than $398 million. These have covered all losses, and administrative expenses, and provide a reserve fund now on hand of $341 million.

Nevertheless, the fact that this pioneering role has been successful and even necessary does not mean that GNMA should continue to be the only or major participant in the market for an indefinite future. The challenge the Administration is addressing to foster the development of private mortgage backed securities since GNMA' pioneering role proved so successful in this area in the 1970's. Legitimate concerns have been raised about GNMA as part of the Federal Government's excessive intrusion into the capital markets in the last seral years. This overall intrusion is an undeniable fact, and its general effects unquestionably appalling. Inflationary expectations and market interest rates are adversely and seriously affected by Federal borrowing demands, and the restraint of those demands is an important though by no means the only, part of the Administration's program to restore economic health to this country. Clearly, conduct of the GNMA mortgage-backed securities program must help in that effort.

GNMA guarantees, it is true, also may divert resources. Our survey data indicate that about 70 percent of investment in GNMA securities in 1981 came from what we call non-traditional sources, such as pension funds and life insurance companies, that would otherwise invest little in single-family mortgages. To the extent we have been successful in attracting funds into housing that otherwise would go to other sectors, GNMA has diverted resources. However, this diversion has been almost entirely a movement within the private sector. If there were no GNMA, those who presently have mortgages financed through GNMA securities would probably have mortgages anyway, though perhaps at a slightly higher interest cost. Research indicates that there is about a one-half percent lower rate on FHA and VA mortgages because of the GNMA guarantee. And without GNMA, those now investing in those securities would invest, for the most part, someplace, though perhaps at a slightly lower rate of return. In other words, like most economic institutions, GNMA has effects at the margin that are easy to exaggerate, whether those effects are thought good or ill.

We should not expect that mortgage-backed securities by all types of issuers, not just GNMA, will give up any substantial share of the credit market in the future. Nor, as depositor institutions come more and more to compete with and then depend upon the money markets for sources of their funds, should we want the secondary markets to be any less available. The part that GNMA plays in this secondary market has been examined by the Federal Credit programs committee of the President's Housing Commission, which found, and I quote, that:

"The current GNMA market has substantial depth and liquidity, a goal which may not be achieved by conventional pass-through markets for several years. Moreover, the GNMA market may well play a supportive role in the development of the conventional mortgage-backed securities (CMBS) markets. GNMA securities serve as a benchmark against which new types of mortgage-backed securities can be priced. Ginnie Maes also provide the basis for the prospective exchange-traded options market and the currently active organized futures markets in Ginnie Maes. These markets allow mortgage originators and investors to hedge their interest rate risks. Moreover, the futures markets permit hedging activities necessary to the development of dealer forward markets for CMBS. Forward markets are important to issuers of pass-through securities, and dealers that issue forward purchase commitments often utilize GNMA futures to cover their positions."

However, the real danger will run in the future is that GNMA will actually prevent the development of the strictly private alternatives that are now beginning to show signs of real growth.

We think it is clear that this development of private mortgage backed securities is to be encouraged and not hindered. For this reason, the Administration has chosen to propose two initiatives in the fiscal 1983 budget.

In the first place, we are instituting a structure of fees to be charged for commitments that will allocate credit assistance on a more business like basis. Up to now, the only fee charged has been a flat fee of $500, no matter how large or small the commitment. We will maintain the $500 fee, but add an additional fee of $200 for each one million dollars in commitment authority issued in excess of $1½ million. Hence there will be less of the "warehousing" of commitment authority by firms simply on the outside chance they might use it. This should enable us to reduce our commitments issued greatly, even while the aggregate of securities issued may increase in 1983.

Secondly, we propose a lower limit on the total of commitment authority that may be issued by GNMA. Presently, that limit is $68.25 billion, and we are proposing a supplemental recission to bring it down in this year to $48 billion. In the present housing market, this lower limit will still present no serious practical problems. GNMA cannot do more business than is presented to it by mortgage originators. So long as originations are low, we can scarcely expect to use a total of commitment authority that is still well in excess of the best year we ever had.

In fiscal 1983, we proposed further lowering the commitment level to $38.4 billion.

By thus putting a realistic and practical limit on GNMA, we are intent on sending to the market a signal that there is indeed room for the private alternatives to grow and prosper without, at the same time, pulling the rug out from under the borrowers who have come to depend on the GNMA security. We will continue to support the market, but we are looking to private firms to take the much more important part the President has said they should play in the rest of this decade.

Specifically with respect to supporting loans guaranteed by the Veterans Administration, I think you should take notice of the fact that year in and year out over the last several years, with the exception of 1978, almost exactly three-fourths of all VA loans have been financed through the GNMA mortgage-backed securities program. In 1978, the figure was closer to three fifths. Let us make the assumption that this ratio will hold steady for next year, when the Veterans Administration is projecting that they will issue guarantees for 324,975 loans. That implies that GNMA will be called on to guarantee securities issued on the basis of nearly 244,000 of those loans.

If we look back to past years, we find that the average number of VA loans financed by GNMA securities from 1977 through 1980 was about 257,000 each year. In the unusually depressed year of 1981, the total was only 140,341. Next year, we are requesting a credit ceiling to allow commitments by GNMA of $38.4 billion, which is 67 percent above issuances in our best year so far, and specifically much higher than issuances in any of the years in which we successfully financed more than the number of VA loans we will probably be presented with next year. Our conclusion is that the proposed limit on commitments in 1983 will not have adverse impact on the VA loan guaranty program. It requires GNMA to conduct business on a more professional basis, but it does not require GNMA to go out of business. This challenge we are eager to accept. I will be happy to entertain any questions you may have.

WRITTEN COMMITTEE QUESTIONS SUBMITTED TO ROBERT KARPE, PRESIDENT, GOVERNMENT NATIONAL MORTGAGE ASSOCIATION, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Question 1. Will the proposed reduction in the GNMA credit ceiling level result in a de facto reduction in mortgage fund availability for the veteran home buyer and seller? Specifically, if so, how? If not, why?

Answer. We do not expect any actual reduction in mortgage fund availability for the veteran home buyer and seller as a result of the reduction in the GNMA commitment ceiling. Based on well-established trends, GNMA will be the source of about 75% of VA financing. The VA estimates that it will guaranty nearly 325,000 loans next year. Hence, about 244,000 VA loans should be expected to be financed through GNMA mortgage-backed securities. GNMA has financed as many as 291,000 VA loans in a single year, but the associated levels of security issuances were still far less than the commitment ceiling that is proposed for next year.

Question 2. Why does the Administration say that a reduction in GNMA activity should encourage the development of mortgage backed securities programs in the private market? What evidence exists to prove this? How long will the private market take to develop sufficiently to replace GNMA-MBS?

Answer. So long as the GNMA full faith and credit guarantee is in the market, it will be a preferred borrower, and therefore a preferred vehicle for borrowers. A limitation of some kind at least permits the possibility that a significant increase in business could be shared in by private issuers, and would not simply go by custom to GNMA. The evidence for this is the fact that GNMA earns substantial net profits for the Treasury every year, yet those profits have not induced substantial entry into the business by others. Standard economic analysis interprets this as evidence of a barrier to entry. Though it took GNMA 8–10 years to develop its market, private firms could do it faster because the GNMA success has made market participants already familiar with the pass-through instrument.

Question 3. What will be the short-term impact on the veterans home loan program of a GNMA phase-down? How do you know this?

Answer. We believe this question is answered in the comprehensive response given to question 1, above. Please note in additon that no decision to "phase down" GNMA beyond the FY 83 level has been made.

Question 4. What might be the long term consequences of such a phase-down on the VA home loan program if the private market fails to respond as predicted?

Answer. If the GNMA MBS program were completely ended and private firms did not take up the slack through private MBS programs, the burden would have to be put on other private financing mechanisms. We believe this would tend to lend to higher costs and less fund availability for home purchases, but we also regard this scenario as very unlikely.

Question 5. If private sector mortgage backed securities find acceptance, will they find VA home loans as desirable as other types of mortgages? Specifically, if so, why? If not, why not?

Answer. VA home loans should be widely acceptable, because of the guarantee that stands behind them, and because the loss experience has been very favorable. However, the absence of due-on-sale clauses could make them undesirable to some investors.

Question 6. Without the GNMA program, will the veteran home buyer, opting to use his entitlement, be able to obtain mortgage money while the private MBS programs are gaining acceptance? Please explain.

Answer. This question premised on being "Without the GNMA program," is strictly speculative. If there were no GNMA program, mortgage money would still be available, though possibly at a slight increase in cost. (See also reply to questions 8, below.)

Question 7. Will private mortgage backed securities developers deem it advisable to have assumable, no money down mortgages in their programs? Specifically, if so why? If not, why not?

Answer. The private mortgage-backed securities issuers are most likely to accept a wide variety of different mortgage instruments in their pools. Whether zero downpayment mortgages are accepted will be a function of the creditworthiness of the borrowers and any guarantees they may have behind them. Experience so far amply demonstrates the creditworthiness of most veterans. The assumability feature makes such mortgages comparatively unattractive, but this feature already exists in the present GNMA program.

Question 8. How can a phase-down of GNMA, or a reduction in its credit ceiling levels, have a "positive effect on the aggregate credit markets and exert downward pressure on interest rates"?

Answer. Studies have indicated that GNMA-financed borrowers do have a preferred position in the credit markets, and that they enjoy about a 0.5 percent reduction in their interest rate from the rate they would otherwise pay. This is also a reduction in return to the investor, which thus restricts incentives to save. A reduced supply of savings would obviously tend to increase rates generally.

Question 9. If GNMA credit ceiling levels are reduced will all mortgage groups currently being serviced by GNMA see reduced activity?

Answer. As explained in the answer to question 1, above, the reduction in GNMA ceiling now proposed is not expected to reduce mortgage activity by any group.

Question 10. If no, which group is likely to suffer the most and why?

Answer. As explained in the answer to question 1, above, the reduction in GNMA ceiling now proposed is not expected to reduce mortgage activity by any group.

Question 11. If GNMA MBS are phased out and private sector MBSs do not find market acceptance where will the mortgages currently serviced by GNMA be placed?

Answer. The Administration cannot withdraw the full faith and credit guarantee presently standing behind existing MBS certificates. Even if it should be decided to end the GNMA program, this will result only in no new issuances of securities. We cannot contemplate any circumstance in which the guarantee of securities already outstanding would not operate; hence the mortgages currently financed through GNMA would be unaffected in any event.

Question 12. Will the phase-down or curtailment of GNMA activity translate into less mortgage money for veterans?

Answer. As stated in the answer to question 1, above, the presently proposed reductions in GNMA commitment authority are not expected to impact adversely on the VA home loan program.

Question 13. Will any benefits accrue to the veterans through a phase-down of GNMA activity? Specifically, if not why? If so, how?

Answer. We believe that the entire economy will benefit from more efficient administration of the GNMA program. By constraining excessive commitment levels—both by reducing the ceiling and by instituting reasonable fees for commitments—we are enforcing a more businesslike procedure that will generate marginal, but important efficiencies. This is a contribution to sounder Federal government that has benefits for everyone. In addition, to the extent we are successful in encouraging private firms to expand in this area, we are benefitting veterans and other home buyers by creating new sources of home financing.

Question 14. If the answer is yes, what will these benefits be and how can they be substantiated?

Answer. We believe that the entire economy will benefit from more efficient administration of the GNMA program. By constraining excessive commitment levels—both by reducing the ceiling and by instituting reasonable fees for commitments—we are enforcing a more businesslike procedure that will generate marginal, but important efficiencies. This is a contribution to sounder Federal government that has benefits for everyone. In addition, to the extent we are successful in encouraging private firms to expand in this area, we are benefitting veterans and other home buyers by creating new sources of home financing.

Question 15. Will a phase-down of GNMA restrict the access of the veteran to home loan mortgage capital?

Answer. As stated in our response to question 1, above, we do not believe the presently proposed reductions in GNMA commitment ceilings will have any adverse impact on homebuyers.

Question 16. In testimony from the Veterans Administration there was a discussion on VA mobile homes. Can you tell us GNMA's experience with the VA mobile home loans?

Answer. GNMA's experience with the VA mobile home loan program can be characterized as having been favorable. For a variety of reasons, the VA program has been administratively simpler for GNMA to work with than has been the FHA program, and GNMA has had no claims made to it in connection with VA loans. It should be noticed that the program has only been in existence for five years (versus ten for FHA), and the total outstanding VA mobile home loan balance in GNMA pools is a comparatively small amount, estimated at about half a billion dollars.

Question 17. I understand the Veterans Administration has under consideration a buy-down program. Can you tell me what has been GNMA's experience with the FHA buy-down program?

Answer. The buy-down program is so new that we cannot pass judgment on it yet. About $150 million in buy-down securities have been issued, backed entirely by FHA buy-down loans. Two firms are responsible for almost all the buy-down securities issued so far.

Question 18. If the Veterans Administration develops a buy-down program, would these new mortgage instruments experience a problem in the secondary mortgage market—particularly with respect to the GNMA mortgage backed security program?

Answer. GNMA would expect to include VA-buy-down loans in its present buy-down program if the VA introduces such loans. This assumes the VA loans will be comparable to FHA buy-down loan.

Question 19. What will be the effect of freeing the FHA and VA interest rates on the secondary mortgage market?

Answer. To the extent that floating VA and FHA rates reduce the possibility of periodic dislocations in credit markets (when the rates are permitted by the administrators of the rates to diverge widely from the market), then there should be a slightly greater willingness of investors to buy mortgage securities.

Question 20. How many single family loans will be originated and available for GNMA's mortgage backed securities pool in fiscal year 1982 and 1983? How many of these are likely to be VA guaranteed loans?

Answer. As of February 28, 1982, 40,645 VA and 66,045 FHA housing units had been financed through the GNMA MBS program in fiscal year 1982, for a total of 106,690 units (this includes units under project construction loans). The estimates submitted with the fiscal year 1983 Budget are in dollar terms, but would correspond to units of about 635,000 for all of fiscal year 1982 and 710,000 in fiscal year 1983. In past years, on average, less than half of GNMA MBS pools have consisted of VA loans. Because loan originations have been very slow thus far in fiscal year 1982, and in view of the VA's estimate that they will guarantee only about 325,000 units in fiscal year 1983, and because the GNMA commitment ceiling is set well above the actual projected levels of issuances, the proposed GNMA commitment levels for fiscal year 1982 and fiscal year 1983 are not expected to have an adverse impact on availability of financing for VA and FHA loans.

Question 21. The President's Budget Message, in discussing Federal credit programs, refers to the "Crowding out" phenomenon. Doesn't the heavy volume of GNMA securities, which are just like government bonds, tend to "crowd out' private borrowers like the veterans and force interest rates up which have to be paid by the veteran? If the VA loan were sold to FNMA whose obligations are not guaranteed by the Federal Government wouldn't this lessen the "crowding out" pressures?

Answer. If GNMA activities do any crowding out, it is certainly to the benefit of the veterans who have their mortgages financed through GNMA. As stated in the written testimony, the evidence is that those who have their mortgages financed through GNMA enjoy about a ½ of one percent better interest rate as a result. Whether the loan is financed through GNMA or FNMA or simply from depositor funds, the same amount of aggregate savings is absorbed, except to the extent of the effects of the slightly better rate.

Question 22. When a mortgage banker originates a VA loan he can sell the loan via GNMA issue or sell it to FNMA or to other private investors. The profit incentives in originating and selling VA loans depend directly upon volume but are there any profit incentives for a lender from servicing VA loans in a GNMA-MBS program rather than servicing loans sold to FNMA or private investors?

Answer. The servicer collects 44 basis points (0.44 percentage points) out of the interest paid by the borrower in the GNMA program. Other programs have slightly lower service fees (generally 37½ points), but may also have slightly lower servicing costs, so that we believe the programs are substantially comparable as regards net return to the servicers.

Question 23. The secondary market has become increasingly important in attracting sufficient supplies of credit for mortgages. What are the outlets in the secondary market for VA loans and can you give us an idea of the dependence lenders place upon the secondary sources of loan liquidity such as GNMA, FNMA and other investors?

Answer. Most Va loans, as stated in the testimony, are financed through GNMA. Other sources of funds in the secondary market are FNMA, the Federal Home Loan Mortgage Corporation (Freddie Mac), and some private firms. Our information is that in 1981 mortgage pool securities in the U.S., including GNMA and Freddie Mac, counted for 3.4 percent of credit market funds raised, while all mortgages counted for 24.9 percent. For comparison, the figures in 1977 were 4.8 percent and 38.8 percent, respectively, It seems fair to say that something like 12 to 15 percent of mortgage funds were raised through the seecondary markets, and this is the best measure we have of lender "dependence" on the secondary sources for mortgage finance.

PREPARED STATEMENT OF JAMES F. AYLWARD, PRESIDENT, MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. Chairman and Members of the Subcommittee, my name is James F. Aylward. I am President and Chief Operating Officer of Sherwood and Roberts, Inc., of Seattle, Washington, and I am President of the Mortgage Bankers Association of America.* MBA is the trade association of this Nation's mortgage banking industry. Accompanying me today are Burton C. Wood, MBA's Senior Staff Vice President and Legislative Counsel, and William Cumberland, MBA's General Counsel.

We appreciate the opportunity to appear before you today to testify on the Veterans Administration (VA) home loan guaranty program. MBA is seriously concerned about an Administration's Fiscal Year 1983 budget proposal, which does not primarily appear to affect the operation of the VA program, but which, if allowed to be imposed, could seriously impair the availability of housing for this Nation's veterans—that is, the proposed restrictive limit on the Government National Mortgage Association (GNMA) mortgage-backed security (MBS) program. We will also comment on the proposed VA guaranty fee contained in HR 5710, as well as offer our support for freeing the VA interest rate and initiating a VA "buydown" program.

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*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of mortgage and real estate finance. MBA's membership comprises mortgage originators, mortgage investors, and a variety of industry related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, financing, selling, and servicing real estate investment portfolios. Members include:

- Mortgage Banking Companies
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- Pension Funds
- Mortgage Brokers
- Title Companies
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- Investment Bankers
- Real Estate Investment Trusts

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VA HOME LOAN GUARANTY PROGRAM

Mortgage bankers have always been heavily involved in the VA home loan guaranty program. During the last decade, mortgage bankers originated approximately two-thirds of all VA-guaranteed loans. In 1981, mortgage bankers originated approximately 79 percent of all VA-guaranteed loans. The VA home loan guaranty program is one of the most successful housing programs in this Nation's history. Approximately 11 million veterans have been housed with VA-guaranteed loans, nearly 150,000 in 1981 alone. Yet the program costs the Federal government very little. It is backed by the revolving loan guaranty fund that was initially capitalized with an appropriation of funds. Claims against the fund for the most part have been satisfied from income generated from past loan and property sales without requiring appropriations. Thus, the actuarial soundness of the VA home loan guaranty program has been demonstrated over many years of experience.

Unfortunately, the continued viability of this program is threatened. The restrictive limit proposed to be placed on guaranty activity of GNMA under its MBS program will seriously impede loan originations if that ceiling is approached. The GNMA-MBS program, supported entirely by user fees, is the prime vehicle for the sale of VA-guaranteed loans to investors. If the GNMA-MBS program is subject to credit budget restrictions, then the availability of funds for VA loans will be affected. Constraints on funds available for VA loans will reduce the effectiveness of the program, cause some veterans to be denied their entitlement, and increase mortgage costs for veterans. Additionally, the developing attraction of non-traditional sources of capital to the VA mortgage market will also be severely hampered.

The second proposal that concerns us is the Administration's FY 1983 proposal to impose a "user-fee" on the veteran borrower under the VA loan guaranty program. While we do not support the imposition of a fee for this entitlement program, if Congress decides to impose such a fee, it must be reasonably structured, and should be remitted to the VA to cover the home loan guaranty program's expenses.

GNMA-MBS CREDIT BUDGET LIMITATIONS

In FY 1981, a "credit budget" was imposed by Congress for the first time on most federally guaranteed and insured loan programs in the First Concurrent Budget Resolution with directions to the various Appropriations Committees to set limits on the individual programs within their jurisdiction. This action was intended to impose some overview and control on programs that had previously been "off budget" by setting target figures for activity during the fiscal year. No limit was imposed on the VA home loan guaranty program, on the grounds that it is an entitlement program available to all eligible veterans and, therefore, could not be constrained by predetermined volume limits.

However, following action by the House and Senate HUD-Independent Agencies Appropriations Subcommittees, Congress placed limits on the GNMA-MBS program of $64 billion in FY 1981 and $68.25 billion in FY 1982. For FY 1983, the Administration has proposed a $38.4 billion ceiling for the GNMA-MBS program. The Administration has also proposed a "supplemental reduction" in the FY 1982 GNMA-MBS level of $20.25 to bring it to a ceiling of $48 billion. In fact, in November 1981, the Office of Management and Budget (OMB) attempted to restrict this program along with several others, by administratively reducing the credit budget ceilings. Congress blocked this attempt by enacting an "anti-impoundment" provision, Section 136 of the Continuing Resolution, HJ Res 370.

For FY 1983, MBA supports the same GNMA-MBS program levels as were enacted in FY 1982, of $68.25 billion. MBA also opposes any reduction in the FY 1982 level for the GNMA-MBS program. Because the VA home loan guaranty program is an entitlement program, no ceilings are proposed for FY 1983, but the Administration anticipates that over $22 billion in VA loan commitments will be issued this year. Over the past five years the GNMA-MBS has served as the financing conduit for 70 percent of the VA and 80 percent of Federal Housing Administration (FHA) mortgage insurance loan activity. A calculation using the Administration's projected figures for FY 1983 FHA and VA activity, shows that if the estimated FHA and VA commitment levels are reached, the proposed GNMA-MBS commitment ceiling of $38.4 billion will be insufficient, as the following example illustrates:

Dollar Total In Billions

EXAMPLE:

Estimated commitment levels for FY 1983 x
Percentage of loans typically sold as GNMA-MBSs = TOTAL IN BILLIONS

VA Home Loan Guaranty Program $22.45 x .70 = $15.71
FHA Mortgage Insurance Program $35.00 x .80 = +28.00
$43.71 Total Necessary Net Commitment Authority

If the GNMA-MBS ceiling is reached or approached, lenders will curtail their primary loan originations of FHA and VA loans because the ceiling will undermine the lenders' ability to market loans via the GNMA-MBS instrument.

The credit ceiling for the GNMA-MBS program applies to conditional (gross) commitments, not final guaranties (net) issued and does not provide for reissuance of unused conditional commitments. Thus, by limiting the number of conditional commitments that can be issued, the number of final guaranties issued will be reduced. For example, GNMA approved approximately $64 billion in conditional commitments in

FY 1980, but issued approximately $22 billion in final guaranties. The reason for the large disparity in these numbers is rooted in the nature of the mortgage lending business. Lenders and builders must assure themselves of a source of funding for their anticipated volume of FHA and VA loans for three to six months in the future. In this way, lenders can be sure they have permanent financing for all FHA-insured and VA-guaranteed loans that they obligate themselves to make during that period of time, and builders can ensure that either FHA or VA financing will be available on an as-needed basis for potential buyers.

One of the ways lenders and builders assure themselves of a source of permanent financing for their FHA and VA loans is to obtain a commitment to guarantee a mortgage-backed security from GNMA. For a variety of reasons, such as fluctuations in market interest rates or lower than anticipated loan volume, lenders or builders sometimes cannot use each GNMA conditional commitment that has been obtained. This happens particularly during times of volatile market conditions such as we are presently experiencing. However, the operation of the system serves to assure veterans that lenders or builders will be in a position to honor their obligations on VA-guaranteed loans.

While the Administration has not proposed to limit VA home loan guaranty activity, a reduction in GNMA-MBS activity could restrict VA loan activity. Backdoor attempts to curtail the VA programs by restricting the primary financing conduit—the GNMA-MBS —will only serve to reduce further mortgage credit availability for moderate-income homebuyers without cutting Federal spending or the deficit by a single penny. The seeds of one such backdoor attempt have been sown in a widely circulated draft of the final report of the President's Housing Commission. In the section on Federal credit programs, no recommendation is made with respect to the VA program because of its status as an entitlement program. However, several pages later the Commission recommends that "access of VA loans to GNMA pools could be restricted since the benefit derived from the GNMA program should not be viewed as an entitlement. To provide parity with FHA, VA loans in excess of applicable FHA loan-size limits should not be eligible for pooling." If mortgage limits are to be imposed upon the VA program, we respectfully submit that such action should be done directly, starting in this very subcommittee, rather than through the backdoor.

The GNMA-MBS Program: How It Operates

The GNMA-MBS program is a uniquely streamlined operation that efficiently attracts both traditional (savings and loans, banks, etc.) and non-traditional (pension funds, insurance companies, etc.) sources of investment. Investors are attracted because the GNMA-MBS is publicly traded, and can be easily liquidated. The investor does not need to know anything about mortgage law, which is a complex field with a variety of state-by-state restrictions, in order to purchase a GNMA-MBS instrument.

GNMA does not invest its funds in an MBS instrument. The private investor, who is located by the lender or a securities broker, provides the funds. GNMA's sole function is that of a guarantor. Whenever an investor chooses to recapture his principal, he can trade the GNMA-MBS, plus or minus adjustments for present market value, without having to wait until the underlying mortgages are paid off.

Authorized GNMA-MBS issuers pool a minimum of $1 million in FHA and VA mortgages and obtain a guaranteed security from GNMA that is backed by those mortgages. The issuer sells the guaranteed security to an investor and then services the mortgages by collecting monthly payments and forwarding them to the investor. Issuers are obligated to advance the monthly payments to investors from their own funds if the borrowers fail to make their payments. GNMA guarantees the performance of the issuer and charges the issuer an initial and annual fee for the guaranty. GNMA, in turn, uses the fee proceeds to cover administrative expenses and to maintain a fund from which to satisfy claims. The Mortgage-Backed Security Reserve Fund contains approximately $322 million in reserves to cover $104 billion worth of outstanding GNMA-MBSs. In turn, these GNMA-MBSs are backed by the FHA-insured and VA-guaranteed loans. A default by an issuer normally does not result in a loss to GNMA. In fact, losses have rarely occurred in the GNMA-MBS program.

The GNMA-MBS program operates best as a demand program. Mortgage bankers secure a GNMA-MBS commitment, as well as commitments from other sources, such as FNMA, prior to closing FHA and VA loans. After the loans are closed and processed, the mortgage banker, depending on market conditions, places them in a GNMA-MBS pool or delivers the loans for purchase to FNMA or other investors. The availability of several vehicles for the sale of VA-guaranteed loans benefits VA borrowers in two ways: competitive pricing on discount points and ready availability of funds.

Competitive pricing on discount points results from competition among mortgage bankers who require a high volume of lending for profitability. In the case of VA-guaranteed loans with administratively set maximum interest rates, the area of competition among mortgage banking companies is the number of discount points that are charged on a loan. In order to generate as high a volume of VA lending as possible, mortgage banking companies constantly seek to keep the number of discount points they charge as low as possible so as to offer a more competitive price than their competitors. While it is the home seller who must pay the discount points when the purchaser is a VA-guaranteed borrower, it is our experience that the seller makes up for the points by increasing the sales price of the home. Thus, in the end, the veteran indirectly pays the discount points charged by the lender, and it is the veteran who benefits from lower discount points due to competition.

The availability of several vehicles for the sale of VA-guaranteed mortgages permits lenders to go to a number of different capital market investors in search of funds. Unlike thrift insitutions that must curtail lending when savings deposit inflows drop off, lenders can, through their choice of delivery vehicles, shift among capital markets until they secure a supply of lendable funds at the most reasonable price available. Thus, the veteran is assured of the ready availability of funds for VA-guaranteed loans.

Through the GNMA-MBS, lenders have been able to attract investors who would otherwise not be interested in purchasing VA and FHA mortgages, but who are willing to purchase a Government-guaranteed, mortgage-backed security. Initially, these new investors in VA mortgages were important, but essentially supplementary, to the traditional capital sources for VA mortgages--the thrift institutions, life insurance companies, and the Federal National Mortgage Association (FNMA). However, since 1976, the GNMA-MBS has been the dominant means of VA loan sales in the secondary market.

If GNMA-MBS activity is curtailed it is extremely unlikely that thrift institutions (mutual savings banks and savings and loan associations), which have traditionally purchased VA loans would again purchase significant numbers of VA-guaranteed loans. The thrift industry is currently in severe financial straits, in large part because earnings from their portfolios of fixed-rate, long term loans are well below the interest rates they must currently pay to attract and hold deposits. The future mortgage activity of thrift institutions is likely to lie in adjustable rate mortgages rather than fixed-rate, long-term loans. Nor will the other large institutional purchaser of VA loans, FNMA, be in a position to purchase a larger volume of VA loans because it is also experiencing financial difficulty.

With the role of the traditional sources of capital for VA loans diminishing, the continued operation of the GNMA-MBS as a demand-oriented program available as a vehicle for the sale of VA mortgages, is more important than ever for the viability of the VA home loan guaranty program.

We would urge this Subcommittee to recommend to the Budget and Appropriations Committees that if it is determined that a binding GNMA limit is necessary, to set the FY 1983 GNMA-MBS limit at $68.25 billion to assure that the limit will be high enough to accommodate potential demand and to facilitate adequate supplies of mortgage credit in the event of a housing recovery.

IMPOSITION OF VA HOME LOAN GUARANTY "USER FEE"

MBA is concerned that the Administration's proposed one-half percentage point fee for VA-guaranteed loans is unnecessary, and could impose an additional burden upon veterans who wish to become homeowners at a time when record high interest rates have already made this a difficult and almost impossible aspiration.

In calendar year 1981, approximately 66 percent of all VA-guaranteed home loans were no-downpayment loans. This unique feature of the VA loan guaranty program enabled many veterans, who otherwise could not afford homeownership, to purchase homes of their own. This feature is particularly important during times such as these, when the Nation is experiencing record high interest rates. There is a 35.5 percent difference in the monthly payments on a $50,000 mortgage at 10 percent, a rate that prevailed in early 1979, and that same mortgage at the current VA interest rate of 15.5 percent. The required monthly payment for a mortgage with such a high interest rate precludes many families from affording a home of their own and requires those who do qualify to stretch their financial resources to the limit. Any additional fee, such as the one proposed by the Administration, could in some instances prove to be the critical expense charge that would place homeownership beyond the reach of many of those barely able to afford the purchase of a home today with a VA-guaranteed loan. A further reduction in the number of families able and willing to purchase a home today would simply add to the already severely depressed state of the housing and mortgage finance industries, who look to the VA program for approximately ten percent of all mortgage finance needs.

If the revolving loan guaranty fund were running large annual deficits on VA-guaranteed loans, then a fee might be appropriate. However, this is not the case. For fiscal years 1981, 1982, and 1983, the VA revolving fund has been, or is projected to be, self-supporting. Thus, from a budgetary standpoint, the VA revolving loan fund is not a drain on the Treasury that the proposed fee would offset. Given the fact that the VA loan program is an entitlement granted to veterans for past service in the armed forces, MBA believes it is particularly inappropriate to charge a fee that is not needed.

However, if Congress does permit a fee to be charged, MBA strongly believes that such funds that are collected should be paid directly to the VA and targeted for use by the VA in the administration of the loan guaranty program. HR 5710, as introduced, authorizes remittance of this fee to the U.S. Treasury. If such a fee is to be rationalized on the grounds that it is a "user fee," it seems logical that it should be applied to defray expenses attached to program administration, as is done under the non-subsidized FHA mortgage insurance programs. If payments are made directly to the U.S. Treasury, MBA is concerned that there will not be an effort to match the user-fee to the service provided and expenses incurred under the VA home loan guaranty program.

VA BUYDOWN PROGRAM

MBA has been urging the VA to adopt a buydown program for several months. MBA strongly urges the VA to act expeditiously to develop a buydown program that would permit builders and sellers of residential property to make a lump sum up-front payment in the form of discount points to lower the effective interest rate on a loan to veterans. While some interest has been evidenced on the part of VA, we are, frankly disappointed that no type of VA buydown program has yet to emerge.

Over the past year, buydowns have been a common business practice for sellers of residential property and one which has been embraced by lending institutions. It is an effective method of lowering the monthly mortgage payments in the early years of the loan, thus making it easier for the borrower to qualify for a loan.

The FHA instituted a buydown program nine months ago that has been very successful in providing below-market rate interest loans to qualified borrowers. Very simply, the FHA program permits sellers of property to buy the interest rate on a loan down for a minimum of three years. The most common buydown is a graduated buydown where the interest rate is bought down for each of the first three years for 3 percent, 2 percent, and 1 percent, respectively. At the end of the third year, the interest rate paid by the borrower will be the full interest rate on the mortgage at the time of closing. To protect the borrower from drastic increases of monthly payments at the end of the buydown period, the maximum that a loan can be bought down is 3 percent per year.

Buydowns have become increasingly common in the conventional market as well. Both FNMA and the Federal Home Loan Mortgage Corporation (FHLMC) have adopted conventional buydown programs, the objective of which is the same as the FHA program, to lower interest rates and decrease monthly payments in the early stages of the loan to make it easier for borrowers to qualify.

A secondary market is already in place for buydown loans. Buydowns may be placed in GNMA pools, albeit in separate pools from level-payment or Graduated Payment Mortgage pools. FNMA will also purchase FHA buydowns under its ongoing commitment programs. We would hope that if VA does develop a buydown program, it would be structured similarly to the FHA program so that it is readily accepted by the secondary market.

FREE VA INTEREST RATE

Under current law, the maximum interest rate allowable on a mortgage guaranteed by the VA is fixed by the VA Administrator. In the early 1950s, Congress enacted legislation to fix interest rates and to ban discount points. The result was a collapse of the FHA/VA portion of the mortgage market, and the law was repealed.

The setting of a maximum interest rate by the VA Administrator harkens back to an earlier era in America's financial history when residential mortgage markets were highly localized and sometimes dominated by a few suppliers of mortgage credit. Possibility for abuse existed, and the Federal government, in the FHA and VA mortgage insurance and guaranty programs, acted in a fashion similar to state governments and set maximum interest rate ceilings. This Federal and state system of interest/usury ceilings was not a problem as long as interest rate changes occurred infrequently, and in small increments. However, the volatility of interest rates in the latter part of the 1970s and early 1980s has turned this restrictive system of interest rate limitations into a hangman's noose around the neck of the housing and mortgage finance industries.

Congress recognized this, at least as far as state mortgage usury ceilings were concerned, and preempted those laws as part of the Depository Institutions Deregulation and Monetary Control Act of 1980 (P.L. 96-221). MBA believes the time has arrived for Congress to complete the task of reforming the law by repealing all restrictions on interest rates for FHA and VA mortgages.

The Federal preemption of state usury ceilings has been in force for two years. Only a handful of states have overridden the preemption. To date, there have been no widely reported and documented instances of abuse or charges of substantially above market interest rates by mortgage lenders. As we maintained to the Congress in testimony on this issue in prior years, the market forces of supply and demand, together with the national linkage of all local mortgage markets, ensures that no single lender or group of lenders in any locality or region could demand and receive mortgage interest rates substantially above the market rate. The same is true for FHA and VA loans.

VA MOBILE HOME PROGRAM

The VA should give careful consideration to permit financing of the simultaneous acquisition of a multi-unit mobile home and a lot (38 U.S.C. 1819) under its regular loan guaranty program (38 U.S.C. 1803). Currently, the combination program is restricted to the mobile home lending program. Such a change would benefit the veteran since the maximum allowable interest rate under Section 1803 is currently 15.5 percent compared to a rate of 17 percent under Section 1819. Mortgage amount limitations currently defined for the combination loan would also be lifted, making it possible for a veteran to finance a mobile home and lot in the same manner as if it were a stick-built home. The term for repayment of the loan would also be increased, making it possible for a veteran to get a 30-year mortgage on the property.

The FHA is already pursuing this change with its combination mobile home/lot loan, and it appears FHA will soon have a program in place to insure these loans under Title II. A secondary market is already in place for combination loans via GNMA pools and FNMA purchase programs.

VA mobile homes are built to Title VI standards, as is manufactured housing insured by the FHA Title I program. Builders, developers, lenders, and borrowers have realized that multi-unit mobile homes, when placed on a developed site, are comparable to stick-built housing in terms of quality of construction, amenities, and visual appearance. Consequently, there should be no difference in the way in which they are financed.

MBA appreciates the opportunity to appear before the Subcommittee and would be happy to furnish any additional information if needed.

[MBA News Release]

MORTGAGE BANKERS ASSOCIATION OF AMERICA,
Washington, D.C., Mar. 23, 1982.

ADMINISTRATION PROPOSAL WOULD CURTAIL LOANS TO VETERANS

WASHINGTON, D.C.—An administration proposal to reduce the ceiling for the Government National Mortgage Association may limit the number of mortgages available to our Nation's veterans, if a housing recovery does occur, the President of the Mortgage Bankers Association of America (MBA) today told Congress.

Testifying before the Subcommittee on Housing and Veterans' Affairs of the House Veterans' Affairs Committee, James F. Aylward called the Administration proposal a "back-door" attempt to further reduce mortgage availability for moderate income home buyers, that would not have any impact on Federal spending or reduce the Federal deficit by a single penny.

In another move that will also serve to reduce the number of veterans eligible for VA loans, the President's Commission on Housing has recommended reducing the loan amount of VA loans that can be placed in GNMA pools. Aylward said that if mortgage limits are to be imposed upon the VA program it should be done directly, "starting in this very subcommittee, rather than through the back-door."

Aylward said the availability of mortgage credit to veterans would certainly be curtailed if the GNMA is restricted because "it is unlikely that thrift institutions will make 30-year fixed rate loans."

Eighty percent of all VA loans are originated by mortgage bankers and seventy percent of all VA loans are sold into GNMA pools.

MBA also expressed concern about the imposition of an additional fee on the VA loan program, saying that in some instances "it could prove to be the critical expense charge that would place homeownership beyond the reach of many barely able to purchase a home with a VA mortgage.

Aylward said 150,000 veterans were able to purchase a home with VA financing in 1981, and the imposition of such a fee could reduce the number of families able and willing to purchase a home today. He said the fee was particularly inappropriate since the VA is an entitlement program and from a budgetary standpoint, the "VA revolving loan fund is not a drain on the Treasury that the proposed fee would offset."

MBA also urged that the Committee begin offering buydown loans to make it easier for the borrower to afford a loan. Aylward pointed out that the FHA has had a successful buydown program in operation for nine months that has helped qualify a greater number of families than would otherwise be possible.

MBA also urged that the VA interest rate be deregulated allowing it to adjust freely with market rates, and that restrictions be lifted with regard to VA mobile home loans.

(MBA, headquartered in Washington, D.C., is the national real estate finance trade association representing more than 1900 member mortgage companies, commercial banks, life insurance companies, savings and loan associations, and others in the mortgage lending field.)

WRITTEN COMMITTEE QUESTIONS SUBMITTED TO JAMES F. AYLWARD, PRESIDENT, MORTGAGE BANKERS ASSOCIATION OF AMERICA

1125 Fifteenth Street, N.W.
Washington, D.C. 20005

Mortgage Bankers Association of America

Burton C. Wood
Senior Staff Vice President
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202-861-6505

April 19, 1982

The Honorable Marvin Leath
Chairman
Subcommittee on Housing and Memorial Affairs
Committee on Veterans' Affairs
U.S. House of Representatives
335 Cannon House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

During our recent testimony before your Subcommittee on March 23, you noted that you had some additional questions, which you forwarded to me in a subsequent letter. I am responding to these questions for the record, as you requested.

1. Will the proposed reduction in the Government National Mortgage (GNMA) credit ceiling level result in a de facto reduction in mortgage fund availability for the veteran home buyer and seller? Specifically, if so, how? If not, why?

In the past five years, approximately 70 percent of all VA originations have been placed in the secondary mortgage market via the GNMA Mortgage-Backed Security (MBS) instrument. The other 30 percent have been purchased for the most part by the Federal National Mortgage Association (FNMA) or held in lenders' portfolios. If the FY 1983 GNMA-MBS ceiling of $38.4 becomes restrictive, lenders will lose their main secondary financing conduit for VA guaranteed home loans (as well or for FHA insured loans). This will result in a reduction of mortgage fund availability for VA loans, unless FNMA or other private lenders are able and willing to increase their purchase of VA loans above current levels.

It is hard to predict in these uncertain economic times how investors will operate. However, it is clear that FNMA, as well as the thrifts (savings banks and savings and loan associations), are financially strapped. Before the GNMA-MBS program developed into the predominant source of secondary financing for VA loans, FNMA and the thrifts served as that source. Until these investors regain both confidence, and more importantly, recover their capacity and former position as major suppliers of mortgage credit, it is realistic to project that a phase-out or reduction in the GNMA-MBS program will result in inadequate supplies of mortgage credit, especially for FHA insured and VA guaranteed loans. It is important to note that it was not the development of the GNMA-MBS program that in any way forced these entities out of the marketplace. Rather, it has been the unusually prolonged period of high interest rates, in which these lenders' portfolio assets (low-yield mortgages) have not matched the generally high interest rates they are required to pay to attract investment or deposits, which has contributed to their problems.

If the GNMA-MBS program's role is reduced, are there institutions that could pick up the residual? The thrifts and FNMA, at least for the near-term future, will be in too weak a position to take on significant additional shares of the mortgage credit market. The other major quasi-governmental operation, the Federal Home Loan Mortgage Corporation (FHLMC), which is strong financially and could possibly take over some business, currently restricts itself to conventional loans only, and does not purchase federally guaranteed or insured loans, such as the VA home loan. Even if the FHLMC expanded its programs to include such loans, however, it does not have sufficient capacity to expand and take over a much larger market share. If the FHLMC recapitalization plan, currently being reviewed by Congress (HR 4787 and S 1805), is passed, then the FHLMC might be able to serve a larger share of the market.

All of these factors lead us to conclude that if a reduction in the GNMA credit ceiling restricts access to the secondary market via the GNMA-MBS conduit, at least in the weakened markets that we are experiencing today, there will not be any other entities either strong enough or willing to take on an additional share. Thus, such a reduction would result in a de facto reduction in the availability of mortgage funds, with the bulk of the reduction falling on veterans and other moderate-income groups.

2. Why does the Administration say that a reduction in GNMA activity should encourage the development of mortgage backed securities programs in the private market? What evidence exists to prove this? How long will the private market take to develop sufficiently to replace the GNMA-MBS?

A conventional mortgage-backed security program has been under consideration for over three years at FNMA and has only recently been implemented. MBA participated in the development of the instrument, and supports alternative methods of secondary financing. In the early 1970s, a number of purely private entities began to develop privately issued mortgage-backed securities. However, mortgage-backed securities issuances require a large volume of mortgages that are basically similar in nature (interest rate, term, etc.). It has been difficult in these past few years to pool sufficient quantities of mortgages because of the high and volatile interest rates. Also, the wide variety of creative financing techniques—adjustable rate, rollover, shared appreciation, growing equity mortgages, etc., have impeded the homogeneity necessary for mortgage pools. In fact, although there were a few purely private issuances in 1978, this activity is dormant today. Only the quasi-governmental institutions, FNMA and the FHLMC, appear to be large enough to attract sufficient quantities of homogeneous loans to market.

The GNMA-MBS has been successful despite the economic downturn because it is publicly traded (like the new FNMA conventional MBS, which is patterned after the GNMA-MBS) and because it has had a steady, high-volume stream of standardized mortgages, despite the interest rate volatility of the past few years. In the past decade, the GNMA-MBS has become a familiar instrument for investors. Certainly the FNMA conventional MBS will be more quickly recognized and accepted than the GNMA-MBS was in its infancy, largely because investors are now familiar with these types of instruments.

It is not vigorous competition from the GNMA-MBS that is impeding market development of a conventional MBS, but rather the economic conditions that prevail, which prevent lenders from originating a sufficient volume of homogeneous mortgages to bring to market. As soon as market conditions improve, we predict that the FNMA conventional MBS program and the FHLMC-Participation Certification program (providing there is sufficient capacity in the FHLMC to expand its activities) will both gain a significant portion of the secondary market activity. Undoubtedly, private issuers will also then come back into the market, and continue the efforts they initiated in the 1970s. This prediction comports with what has happened in past economic downturns—during periods of tight credit FHA/VA, and concommitantly GNMA programs, experienced upturns in their share of mortgage activity. However, once economic conditions improved, conventional lending again expanded. When successful conventional MBS programs are developed and accepted, this countercyclical pattern in FHA/VA and GNMA activity may diminish, because the conventional MBS itself, will be available throughout economic cycles, performing the same countercyclical function that GNMA now does. Only when interest rates decline and loan activity increases can the conventional MBS continue its evolutionary development.

MBA will continue its cooperation with FNMA and the FHLMC in their efforts to develop secondary marketing instruments. Hopefully, a transition will occur that will serve to strengthen those institutions, as well as to provide stable sources of investor funding for mortgages throughout all economic cycles.

3. What will be the short term impact on the veterans home loan program of a GNMA phase-down? How do you know this?

In 1981, over half of all mortgage loans originated were sold on the secondary mortgage market. Approximately 70 percent of VA originations over the past five years have been sold via the GNMA-MBS instrument. Clearly, the future of mortgage finance lies in the strength and ability of the secondary mortgage market to provide access to sufficient supplies of mortgage credit. Because the VA home loan guaranty program relies so heavily upon the GNMA-MBS program as its source of investment funds, a phase down of the GNMA-MBS program would have a profound effect upon the availability of mortgage funds for veterans. As was explained at greater length in the answer to Question 1, the other sources of VA mortgage investment funds are, at least in the short-term, unstable and will not be able to supply adequate investment funds if the GNMA-MBS program is phased down. In the absence of alternative secondary market investment sources, lenders will not originate VA home loans for lack of a readily available secondary market in which to sell those loans and veterans may find it difficult to obtain VA-guaranteed loans.

4. What might be the long-term consequences of such a phase-down on the VA home loan program if the private market fails to respond as predicted?

Without an alternative source of secondary market financing, the long-term impact would be the same as the short-term impact of a phase down of the GNMA-MBS program on lending under the VA home loan guaranty program. There would be fewer dollars available for VA loans and veterans would be unable to use their guaranty eligibility. Veterans using the loan guaranty would pay higher interest rates.

5. If private sector mortgage-backed securities find acceptance, will they find VA home loans as desirable as other types of mortgages? Specifically, if so, why? If not, why not?

If privately-sponsored and quasi-governmental conventional MBS programs are successfully implemented, and are expanded to take over GNMA's market share in the event of a total phase-out, VA guaranteed home loans may encounter some difficulty in competing for an adequate share of mortgage credit. The no-downpayment feature, as well as the partial guaranty, present an element of risk to a potential investor, because the borrower may have little if any equity in the home and the VA guaranty offers only a partial repayment in the event of default. Since residential real estate appreciation has recently moderated, and lenders may not be able to rely on inflation automatically to increase the value of their security, the element of risk attached to a low equity loan is elevated. In the event of default, conventional mortgage insurance will typically pay 20 percent of the mortgage amount on a conventional loan. For argument's sake, this is roughly equivalent to the guaranty offered for a VA loan. The major difference then, is that a VA loan requires no downpayment, while the downpayment required for a conventional loan can range from five percent to as high as 25 percent, depending upon the lender's requirements. Therefore, while the default coverage is roughly equivalent, there is always at least some borrower equity with a conventional loan. If the GNMA-MBS program were completely phased out, it is quite possible that investors would insist on a downpayment of at least five percent, even if this is not required by the VA program. Alternatively, investors would require a higher yield in order to factor in the greater level of default exposure that they would face when purchasing no-downpayment loans.

Also, VA loans at present are assumable, because the mortgage form required by the VA does not contain a "due-on-sale" clause. Over the past few years, it has become commonplace for sellers not to pay off a mortgage upon sale, but rather to allow the buyer to assume the loan in order to take advantage of a lower interest rate. This has resulted in loans having lengthier average terms than was previously the norm, reducing their expected yield to the investor. This effect will cause investors to demand a higher yield on VA loans, especially if they cannot be packaged in larger GNMA pools.

The concept of pooling mortgages and selling mortgage-backed securities gained acceptance over the last decade largely because investors were attracted to an instrument that removed much of the guesswork and chance element from investment in mortgages. Investors make certain presumptions regarding these pools as to the average life of a loan, and base the yield that they require in part on the presumption that the loans will pay off in a certain number of years. Because of the assumability of VA loans, it is likely that the average term of these loans will lengthen, if interest rates remain at or near today's high levels. Although investors have not yet done so, it is not unlikely that they might require VA loans to be segregated into pools by themselves, where the yield required by the investor would be increased in order to factor in the increased risk represented by the no-downpayment feature, and the longer interest rate exposure due to lengthier average loan terms because of the assumability of these loans. This would translate into increased interest costs for veterans, if investors require higher yields because of these factors. Already, major investors have begun to focus on assumability—FNMA now requires a seven-year call provision for conventional loans originated in states that restrict or prohibit due-on-sale enforcement in order to limit assumability and the average term of loans in its loan portfolio.

Market volatility of interest rates has confounded investors and wreaked havoc on lenders who have retained mortgages in their portfolio. Investors, in order to avoid this in the future, are likely to turn increasingly to mortgage forms that allow them to adjust interest rates or shorten loan maturities, rather than holding long-term, fixed rate instruments. If this is the case, it will be the investor who ultimately will dictate what form the mortgage will take. Veterans seeking no-downpayment, long-term, fixed rate mortgages will not be able to procure loans, unless a secondary market investor is willing to make that investment. While private mortgage-backed securities will no doubt be available for many different types of loans, including VA home loans, investors will scrutinize each class of loans and factor in higher yields on those loans where interest rate exposure or potential default risks are higher.

6. Without the GNMA program, will the veteran homebuyer, opting to use his entitlement, be able to obtain mortgage money while the private MBS programs are gaining acceptance? Please explain.

Mortgage money is always obtainable—it is simply a matter of what price must be paid and what terms are acceptable. If the GNMA-MBS were eliminated, there would certainly be investors willing to provide financing, but as the answer to the previous question indicated, investors would likely require higher yields or demand that downpayments be made in order to invest in VA loans. This is likely to be true even if the private market develops an acceptable MBS program.

One question that occurs here is, why does the availability of the GNMA-MBS, which relies totally on private investment, provide a market where investors do not make such demands? Certainly a factor is that the GNMA-MBS provides a 100 percent guaranty that lenders or the government will make timely payments to investors even when a borrower is in default. But more importantly, the GNMA-MBS is a viable instrument, even in today's volatile economic environment, because it is based on a large volume of standardized loans. This factor has preserved the long-term, fixed rate loan at a time when many have predicated that such loans are dinosaurs on their way to extinction. In the same way that a large corporation or the government can command the best terms and interest rates on their own long-term debt, the GNMA-MBS operates to provide that same market access for the individual borrower, because of its large scale, efficient operation. The savings attributable to this factor result in lower interest rates for borrowers, and augment the supply of mortgage funds.

7. Will private mortgage backed securities developers deem it advisable to have assumable, no money down mortgages in their programs? Specifically, if so why? If not, why not?

The general issues raised by this question were covered in the answer to Question 5.

More specifically, however, lenders have now recognized that loans that are assumable have a longer average life, meaning a lower expected investment yield. In the past, FHA and VA loans had an average term of 12 years. This has now lengthened to 15 to 20 years.

So long as market interest rates remain higher than the comparable rates on existing loans, however, it is clear that sellers will utilize their low-interest assumable loan to sell their homes.

FNMA has already reacted to this phenomena, by requiring a seven-year call provision in all conventional mortgages originated in states that restrict or prohibit due-on-sale clauses. This signals FNMA's intent to retain a reasonable turnover in its portfolio by steering away from assumable loans, where the average term may be longer than expected, reducing the yield.

Lenders will continue to accept assumable loans in pools only to the extent that the interest rates paid by homeowners are high enough to compensate for the longer expected term.

8. How can a phase-down of GNMA, or a reduction in its credit ceiling levels, have a "positive effect on the aggregate credit markets and exert downward pressure on interest rates"?

Some contend that federally related credit activities foster credit demand that would not otherwise exist, and thereby increase demand for a finite supply of credit forcing interest rates upwards. This effect is referred to as "crowding out." A phase-down or elimination of the GNMA-MBS program will not have a "positive effect on the aggregate credit markets and exert downward pressure on interest rates" unless it results in a reduction of total mortgage credit volume. If private entities simply replace the GNMA-MBS volume with privately backed mortgage credit, there would be no reduction in demand for credit, and therefore, no downward pressure on interest rates. Alan Greenspan, in testimony before the Special Task Force on Credit of the Senate Budget Committee, admitted as much, indicating that some Federal credit programs have less of a crowding out effect than others. He specifically mentioned the FHA and GNMA-MBS programs, noting that this is lending that would probably take place even without the Federal backing.

Even if the GNMA-MBS program were eliminated, and the private market did not replace any of the credit demand under the GNMA program, the impact on the total credit markets would be negligible. For example, in 1981 mortgage credit on one-to-four dwellings utilized 12 percent (approximately $57.7 billion) of total credit amounting to $479.9 billion. The GNMA-MBS program represented approximately one-quarter of that 12 percent, that is, less than 3 percent of total credit demand. Even the total elimination of this portion of credit would have an insignificant impact on interest rates, although it would devastate housing and related industries. Of course, it is ridiculous to claim that none of the GNMA-MBS credit demands would be replaced by private entities, and this fact makes the argument even more specious. In all probability, if the GNMA-MBS program were eliminated, total mortgage credit volume would decrease only slightly, as marginal borrowers dropped out of the market when lenders "rationed" finite supplies of mortgage credit, apportioning that credit to those borrowers that represented little or no risk. Thus, a reduction or elimination of the GNMA-MBS program is unlikely to result in any decrease in overall interest rates.

9. If GNMA credit ceiling levels are reduced will all mortgage groups currently being serviced by GNMA see reduced activity?

GNMA currently has no allocation scheme for distributing its MBS commitments. GNMA was operating under an informal allocation scheme until enactment of Section 136 of the Continuing Resolution, PL 97-92, in December 1981, which mandated that Federal departments and agencies provide insurance or guaranties to all eligible applicants up to the Congressionally authorized credit budget limits. Prior to the enactment of that legislation, GNMA issued commitments to lenders based on their previous year's usage levels, and allocated the balance to fund certain specified projects and for new lenders. This scheme worked efficiently at that time, because the housing market was contracting due to the recession and because the Congressionally authorized credit limitation for the GNMA-MBS program was adequate to fulfill all reasonable needs.

If, however, the credit limitations are reduced to a restrictive level, such an allocation scheme obviously will not work. The credit budget itself makes no provision for credit allocation, and therefore, the scheme is basically left to the agencies or departments themselves to devise. One option, of course, is to do nothing and simply wait until the ceiling is reached. At such time, either the ceiling is increased or the program shuts down. In the latter event, no particular group is directly affected more or less than any other group, because lenders are simply going to quit making both VA and FHA loans, unless they have secured alternative secondary market commitments in which to place such loans. If a veteran or potential FHA borrower is unable to secure such a loan, that borrower will have to seek conventional financing on whatever terms are available. The answers to Questions 1 and 6 provide greater details on the ability of these various markets to service borrowers barring the ready availability of the GNMA-MBS program.

10. If no, which group is likely to suffer the most and why?

Assuming that no allocation system is devised to tilt FHA/VA lending and GNMA secondary financing to a specific type or class of borrowers, then the groups that will suffer most are marginal borrowers, or those borrowers who are unable to make a large enough downpayment. While conventional mortgage insurers now insure certain loans with a five percent downpayment, they are insurers not lenders. It is not unusual in periods when credit is restrained for lenders to demand higher downpayments, in order to "ration" available supplies of credit, despite the fact that mortgage insurance companies are willing to insure loans with only a five percent downpayment.

Marginal borrowers will "fall between the cracks" if GNMA-MBS commitments are unavailable, because mortgage interest rates will be somewhat higher. Even slightly higher interest rates can make the difference in the ability of marginally qualified borrowers to afford a home. If the total amount of secondary market mortgage credit is reduced, mortgage interest rates will be higher and/or marginal borrowers will be forced out of the market. On the other hand, if conventional MBS programs replace the GNMA-MBS program, dollar-for-dollar, there would be little if any displacement, because the yield differential between a conventional and a GNMA-MBS would likely be very slight. However, if that is the case, the intent of the entire exercise would be nullified, because there would be no decrease in the demand for mortgage credit and no concommitant abatement of interest rates (see Question 8). VA borrowers who choose to make no-downpayment loans could also be at a slight disadvantage.

The VA guaranty offers lenders and investors protection that is roughly equivalent to that offered by conventional mortgage insurance. However, conventionally insured loans typically carry downpayments that range from five to 25 percent. Ordinarily, mortgage pools are sequestered—federally insured or guaranteed loans being placed in separate pools from conventional loans. If VA loans in the future are placed in segregated pools, it is not unlikely that investors will require higher yields to compensate for the added risk of lower downpayments, if the average downpayment in these pools is lower than the average downpayment in a conventional MBS pool. This higher yield will be passed along to the borrower as a higher interest rate.

11. If the GNMA-MBS is phased out and private sector MBSs do not find market acceptance where will the mortgages currently serviced by GNMA be placed?

The table below contains a breakdown of investors in VA-guaranteed loans for the past decade. An analysis of the data indicates that in the early 1970s FNMA, savings and loan associations, mutual savings banks, and GNMA were the principal investors. By 1980, however, only FNMA and GNMA remained in the VA market in any strength. If the private sector is unable to develop an acceptable conventional MBS and the GNMA-MBS program is phased out, there will be no institutional investors strong enough to expand their market and pick up the slack (see Questions 1 and 2). MBA is confident, however, that the private market will successfully develop an acceptable conventional MBS. The question remains simply whether that private market alternative will command as large a portion of the market, and thus gain enough strength on Wall Street to duplicate the large-scale efficiency of the GNMA-MBS program.

VA MORTGAGE LOANS PURCHASED BY TYPE OF INVESTOR

(Dollars in Millions)

	1980	1979	1977	1976	1975	1974	1973	1972	1971
Life Insurance Company	196	105	143	134	124	112	150	144	150
Mutual Savings Bank	111	284	530	452	289	263	592	747	527
S&L's	129	309	711	794	717	608	983	1,585	1,444
Commercial Banks	226	340	291	114	39	94	59	123	82
FNMA	2,003	1,316	1,163	763	1,602	1,802	1,362	820	803
GNMA	275	0	29	504	630	662	416	157	23

VA MORTGAGE LOANS PURCHASED BY TYPE OF INVESTOR—(Continued)

(Dollars in Millions)

	1980	1979	1977	1976	1975	1974	1973	1972	1971
GNMA Mtg. Pools	5,518	7,276	7,720	5,646	2,967	2,096	925	858	791
State Finance Agencies	588	351	232	134	102	80	15	16	5
Others	1,406	1,588	551	240	69	123	126	113	48
Uncommitted Inventory	168	422	202	208	137	184	233	267	209

Source: Trends Report, Nos. 23, 25, 27, 29, Prepared by MBA's Economics Department

Note: This information was not compiled in 1978.

12. Will the phase-down or curtailment of activity translate into less mortgage money for veterans?

If the private market does not expand enough to take over the current GNMA-MBS share of secondary market activity, there will undoubtedly be less mortgage credit available for veterans, who cannot qualify for higher downpayment conventional loans. As mentioned above, the secondary market is crucial to the future of mortgage finance. Traditional investors, such as savings and loan associations and mutual savings banks, because of their financial difficulties, will not be able to have sufficient supplies of credit to lend to homebuyers without access to the secondary market, which enables them to roll over their supplies of mortgage money. Without a viable secondary mortgage market—whether the entities are GNMA, FNMA, FHLMC, or private backers—the mortgage market will be moribund.

13. Will any benefits accrue to the veterans through a phase-down of GNMA activity? Specifically if not, why? If so, how?

The GNMA-MBS, because of its Federal guaranty and extreme efficiency in the capital markets, operates to lower mortgage interest costs. So long as the GNMA-MBS is replaced in the markets by an equally efficient mechanism, a phase-down of the GNMA-MBS program will not detrimentally affect veterans, unless higher downpayments are required. If the GNMA-MBS is simply replaced by another mechanism, however, the main theoretical rationale for replacing a working system—lower interest rates due to decreased credit demand—will be nullified. A second rationale—that the Federal government should not be involved in areas where private enterprise can operate—is similarly weak. The GNMA-MBS program already involves private enterprise to a maximum degree. In fact, the GNMA program is operated by less than 40 employees—lenders themselves being responsible for originating the loans and marketing the securities. The government role is solely one of an insurer that simply issues the guaranty for the security.

MBA does not believe that there are any defensible reasons for phasing down the GNMA-MBS progam, particularly during the troubled economic times that housing is facing. In short, and in colloquial language, "if it ain't broke, don't fix it."

14. If the answer is yes, what will these benefits be and how can they be substantiated?

The primary benefit that proponents of a GNMA-MBS phase down point to is reduced interest rates. We do not believe that this theory has an adequate basis, unless the total volume of mortgage credit is restricted. In light of the demographic demands for housing during the 1980s, which have only been exacerbated by the demand that has been pent-up over the last few years, MBA vigorously protests any move that would dampen the efficiency of the secondary market.

15. Will a phase-down of GNMA restrict the access of the veterans to home loan mortgage capital?

So long as other entities develop adequate substitutes for the GNMA-MBS, veterans will have access to home mortgage capital. Depending on what is developed and which entity does it, that mortgage credit would be more expensive or require more onerous terms. MBA is confident that even in the absence of the GNMA-MBS there will be alternatives developed. We simply question the need for, and the wisdom of, going through this exercise when there is already in place an efficient, method of performing precisely the same function, at no cost to the Federal government.

Sincerely,

Burton C. Wood

Burton C. Wood
Senior Staff Vice President and
Legislative Counsel

PREPARED STATEMENT OF PAUL S. EGAN, DEPUTY DIRECTOR, NATIONAL LEGISLATIVE COMMISSION, THE AMERICAN LEGION

Mr. Chairman and members of the Subcommittee, the American Legion would like to thank you for allowing us to present our views on the VA Home Loan Guarantee program. Specifically, we would like to address three Administration proposals of utmost concern to the veterans: the proposal to reduce the credit levels of the Government National Mortgage Association (GNMA); the proposal to increase GNMA charges; and the proposal to charge a one half of one percent (0.5%) user fee on the origination of all new VA home loans.

We recognize that no one is currently saying that there ought to be a reduction or curtailment of the VA Home Loan program. However, we cannot help but to be cautious when a twenty percent reduction in a program is proposed, that currently affects upwards of seventy percent of VA mortgages. We find ourselves faced with the question, "Will the proposed reduction in GNMA credit ceiling level result in a de facto reduction in mortgage fund availability for the veteran home buyer and seller?" We find that there are subtle indications that such might be the case.

Over the last several months The American Legion has tried to assess the impact that a GNMA phase-down would have on the VA Home Loan program. What we've been able to ascertain is that there are many questions, on both sides of the issue, that need to be answered before a valid determination of the impact of this proposal can be made. If it is found that veteran home buyers and sellers would be adversly affected by a phase-down in GNMA activity, then we would be compelled to strenously oppose any and all measures aimed at reducing GNMA activity. On the other hand, the Legion would not oppose the phase-down proposal if it can be shown that veterans will not, in fact, be denied their home loan entitlements or access to currently available mortgage money.

Mr. Chairman, we are sure that you and the other members of the subcommittee, recognize that the inordinately high interest rates currently being charged for mortgage money, as well as other consumer credit, have served to price many deserving and otherwise credit worthy veterans out of the housing market. The current interest rates make a shambles of the Va Home Loan program, and veterans, through no fault of their own are being effectively denied a congressionally awarded entitlement for patriotic service. A brief review of the current VA Home Loan program will illustrate this point.

As of March 10, 1982 the rate being charged for VA Home Loans is 15.5%, as compared to a conventional mortgage market rate of sixteen to seventeen percent. The cost of the average home guarnateed by the VA is $57,000 with a loan amount of $54,139. The principle and interest on the current average VA loan would come to $717.34 per month. Add to this another $75.00 to $100.00 for taxes and insurance and you have a total monthly mortgage payment of approximately $800.00. Appendix I shows, for fiscal years 1978-1981, the steep rise in home costs as well as the increase in salary required to qualify for the home loan guarantee.

Appendix II illustrates the effects of the high interest rates on the Home Loan program. In fiscal year 1978, 380,875 mortgages were guaranteed by the VA. We ask you to compare the 1978 figure with the less than 40,000 mortgages guaranteed during the first five months of FY 82. We would also ask you to note, that of the FY 82 totals, only 20,183 of the mortgages were for Vietnam-era veterans.

A VA Home Loan Guarantee is supposed to provide the veteran with certain advantages. Among these advantages are the no money down and the assumability aspects of the guarantee. In the parlance of the mortgage community, a no-money down loan is considered to have a low loan to value ratio. That is, the value of the mortgage is one to one with the amount of the loan. As the size of the down payment increases, the ratio between the value of the mortgage and the size of the loan increases yielding a higher loan to value ratio. Likewise the assumability aspect of the fixed rate VA mortgage is locked into a particular interest rate for a longer time than a conventional mortgage which is not assumable. Thus, the two items that are designed to aid the veteran home buyer may, with todays highly volatile interest rates, work against the persons they are designed to assist.

We suggested earlier that a reduction in the GNMA credit ceiling levels could result in a practical reduction in mortgage fund availability for the veteran home buyer and seller and further suggested that there are subtle indications that such might be the case. On page 207 of Major Themes and Additional Budget Details, the Administration maintains that the proposed reductions in the "Mortgage Backed Security program should: (emphasis added) positively affect aggregate credit markets and exert downward pressure on interest rates; encourage the development of mortgage backed securities programs in the private market for both conventional and government-insured mortgages; and reduce budget outlays since additional income will be generated by the increase in user fees." According to the Congressional Budget Office's (CBO) report to the Senate and House Committees on the Budget, Part III, (Page 24) Reducing the Federal Deficit: Strategies and Options referring to non-GNMA mortgage backed securities, "If these new instruments gain Ti c the acceptance that GNMA securities now enjoy, the mortgage market might be able to function efficiently without GNMA." (emphasis added) Both the Administration's and CBO statements cause this organization some concern.

The Administration says that a reduction in GNMA activity, "should: encourage the development of mortgage backed securities programs in the private market...." Perhaps such a development will occur, but how long will it take for these newly developed MBS programs to gain market acceptance? Both the Administration and CBO, by their choice of words, "should", "if" and "might" are hedging on the consequences of the proposed action. We feel that this hedging is grounds to examine the short and long term consequences of the Administration's proposal in detail.

Noticeably absent from both the Administration and CBO accounts is an assessment of impact, short and long term, on the VA Home Loan program. If private sector mortgage backed securities find acceptance, will they in turn find VA home loans as desirable as other types of mortgages? We ask this because of the two aspects of VA mortgages that may work against the home buyer. Will the veteran home buyer, opting to use his entitlement, be able to obtain mortgage money while the private MBS programs are gaining acceptance? Secondly, will private mortgage backed securities developers deem it advisable to have assumable, no money down mortgages in their programs? Current indications are that they would not.

The Administration maintains that a reduction or curtailment in GNMA activity "should positively affect aggregate credit markets and exert downward pressure on interest rates." We question this assumption and are unable to specifically ascertain how the proposed change would exert a downward pressure on interest rates. It seems to us, in the absence of a more compelling argument, that be restricting federal funds and or guarantees, you are in effect removing credit, ie money, from the market thus increasing competition for the remaining private sector capital. Could this elevation of bidding drive interest rates even higher? If our suspicion is correct fewer and fewer veterans will be eligible, in the coming years, resulting in a de facto dismemberment of the VA Home Loan program.

As previously shown, the current high interest rate is already preventing many veterans from using their entitlement. Add to this a greater reduction in available mortgage money and only those with large cash resources will be able to afford to purchase a home. Under the circumstances, even these purchases will likely employ loan mechanisms other than the VA Home Loan program.

Assuming a flat reduction in GNMA credit ceiling levels/activity, will one group suffer more than another? If such is the case, which group is likely to suffer the most and why? Alternatively, will all mortgage groups currently serviced by GNMA see reduced activity at the same rate?

We ask these questions because, as we understand it, fifty to seventy percent of recently completed VA home loans have been placed in GNMA mortgage backed securities. If GNMA is phased-down, where will these mortgages be placed? The answer to this question is of utmost importance to the veteran home buyer who needs to know if a GNMA credit ceiling reduction will translate into less mortgage money for veterans. If the answer is yes, then we must assume that there is a greater causal relationship between GNMA credit reductions and available mortgages for veterans than the Administration is willing to admit. Such a federal credit ceiling reduction could adversely effect other federal credit areas, whether or not this residual effect was unintentional. Therefore, we ask you to carefully examine the relationship that currently exists between VA home loans and the GNMA mortgages backed securities programs.

Others will present testimony both in favor of and against a phase-down of GNMA activity. We are asking this subcommittee to carefully determine if the phase-down of GNMA will hurt or restrict the access of the veteran home buyer to housing capital? Equally important, we would like to know if any benefits will accrue to the veteran through a phase-down of GNMA activity? In the absence of any positive benefit to the veteran we must assume that a phase-down of GNMA will have some negative by products. We do not want the subcommittee to feel that we are inalterably opposed to the proposed phase-down of GNMA, we are not. What we oppose is any proposal that would intentionally or unintentionally, via a circuitous route, undermine one of the most important veterans programs on the books. Without knowing the long and short term consequences of a GNMA phase-down, the VA Home Loan Program and the veterans it was designed to serve, may be in jeopardy.

Mr. Chairman, we would like to turn our attention to another area affecting the veteran home buyer. That is the proposal by the Administration to impose a one-half of one percent (0.5%) funding fee on each home loan guaranteed by the VA. According to the Administration, "the user fee will help defray administrative and operating costs of this program without affecting mortgage interest costs paid by veterans." The Administration further contends that "since this program provides a benefit to a select group, it is reasonable to expect that this group bear a portion of the cost of providing the benefit." The American Legion feels that the government, not the veteran having earned the benefit, should carry the Administrative and other operating costs associated with the program. The Administration's assertion that it is reasonable for veterans to bear a portion of the cost of providing the benefit can only be based on an assumption that the benefit is given and not earned. We feel, to the contrary, that American soldiers served all Americans and that the VA Home Loan program is an earned benefit.

Another area of this proposal that concerns us is the return of the proposed user fee to the Treasury. If, in its wisdom, this subcommittee determines that a user fee must be assessed, we would like to see the proceeds not only stay within the Veterans Administration but that some portion of them be used to fund the provisions of Title III under P.L. 97-72, the "Veterans Small Business Loan Act of 1981." We feel that by using a part of the proposed fees to fund the small business loan program veterans would, in effect, be contributing to the general welfare of veterans. Thus the veteran home buyer would have a direct part in helping a congressionally established program succeed.

Our concerns do not stop here, the Administration has called for a raise in the GNMA commitment to be, on average, equal to $1,000 per pool package commitment as well as "a new fee of $250 [to] be charged to new GNMA securities issurers..." (sic). First, there is the 0.5% user fee that would amount to approximately $258.00 per loan, based on a mean VA loan value of $54,000.00. Second, we know that upwards of seventy percent of all loans are placed in GNMA mortgage backed securities. Third, we can assume that any raise in commitment fees, or new issuer fees, will be passed on to the consumer. Therefore, what we end up with is an administration proposal that would require veterans to pay twice; once to use their entitlement and again in the higher fee that will be paid by the veteran to the lender. We can hardly consider this equitable and are opposed to any plan that would have such an economic impact on the veteran community.

Mr. Chairman, we recognize that high interest rates are impacting on every sector of the American economy. We also recognize that veterans must absorb their share of budget cuts if we are to restore the nation's economic health. We are simply asking you to carefully evaluate the impact that the Administration's proposals will have on veterans. Our conclusion is that veterans may inadvertently be asked to assume more than their fair share of the burden.

Mr. Chairman, we would like to thank you and the members of this subcommittee for the opportunity to express our concerns today. Your concern for the welfare of the veteran is well known and we are sure that you will examine these matters with the most exacting scrutiny.

APPENDIX V

PERCENT OF INCOME DETAILED FOR MORTGAGE

FY	YEARLY MORTGAGE AMOUNT	GROSS INCOME	% OF INCOME FOR MORTGAGE
78	$ 4,175.52	$ 16,635,52	25.0%
79	5,403,36	18,459,36	29.3%
80	7,119.96	21,567.96	33.0%
81	10,920.48	29,616.48	36.8%

APPENDIX I

INTEREST RATE

FY	PRICE	AVERAGE LOAN AMOUNT	INCOME Monthly	 Annual	
78	$ 35,671	$ 34,546	$ 1,020 =	$ 12,440	(net)
79	39,976	38,595	1,088 =	13,056	(net)
80	46,360	44,444	1,204 =	14,448	(net)
				21,204	(gross) *
81	57,075	54,139	1,558 =	18,696	(net)
				28,056	(gross) *

* Prior to 1980 the VA did not maintain gross salary figures. However, they are included here to show the actual income levels required to qualify for the average VA loan amount.

APPENDIX II

VA GUARANTEED LOANS

FISCAL YEAR	TOTAL VETERANS		VIETNAM ERA
78	380,875		218,635
79	357,850		204,480
80	297,457		164,144
81	179,400		93,429
82 (Cumulative)	39,967	thru 2/28/82	20,183

(Projected less than 100,000 in FY 82)

APPENDIX III

VA INTEREST RATES

May 15, 77 = 8½%
Feb. 28, 78 = 8 3/4%
May 23, 78 = 9%
June 29, 78 = 9½%
Apr. 23, 79 = 10%
Sept. 26, 79 = 10 3/4%
Oct. 26, 79 = 11½%
Feb. 11, 80 = 12%
Feb. 28, 80 = 13%
Apr. 3, 80 = 14%
Apr. 28, 80 = 12½%
May 15, 80 = 11½$
Aug. 20, 80 = 12%
Sept. 22,80 = 13%
Nov. 24, 80 = 13½%
Mar. 9, 81 = 14%
Apr. 13, 81 = 14½%
May 8, 81 = 15½%
Aug. 17, 81 = 16½%
Sept. 14, 81 = 17½%
Oct. 12, 81 = 16%
Nov. 16, 81 = 15½%
Jan. 25, 82 = 16½%
Mar. 2, 82 = 15½%

APPENDIX IV

MONTHLY MORTGAGE COSTS

FY	AVERAGE INTEREST RATE	PRINCIPAL AND INTEREST		ASSUMED 25% ESCROW ADD ONS TAXES AND INSURANCE		GROSS MORTGAGE COSTS
78	9.0%	$ 277.96	+	$ 70.00	=	$ 347.96
79	10.75%	360.28	+	90.00	=	450.28
80	12.50%	474.33	+	119.00	=	593.33
81	16.0%	728.04	+	182.00	=	910.04

PERCENTAGE INCREASE IN COST TO VETERANS FROM YEAR TO YEAR (APPROXIMATELY)

78-79	a. 25%
79-80	b. 33%
80-81	c. 50%

V F W VETERANS OF FOREIGN WARS OF THE UNITED STATES

NATIONAL LEGISLATIVE SERVICE

Office of Director

STATEMENT OF

JAMES N. MAGILL, SPECIAL ASSISTANT
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO
VETERANS HOME LOAN GUARANTY PROGRAM

WASHINGTON, DC MARCH 23, 1982

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for the opportunity to present the views of the Veterans of Foreign Wars of the United States with respect to the Veterans Home Loan Guaranty Program.

Mr. Chairman, the VFW considers the VA Home Loan Guaranty Program as one of the most successful and beneficial programs administered by the Veterans Administration. To date more than 11 million loans have been guaranteed by the VA, providing veterans an opportunity for home ownership that they may not otherwise afford. We believe this program should enjoy the full support of the Congress and the Administration. The national housing and home loan financing situation is still, in our opinion, at a crisis level. Veterans continue to find it very difficult to fulfill the American dream of home ownership. While the federal government proclaims with certainty that interest rates will fall, and some have, such is not the case with home mortgage rates. When we last testified before this distinguished Subcommittee on the Home Loan Guaranty Program, mortgage rates were approximately three percentage points lower than now, making a difference in payments of more

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than $100 a month on a $50,000, twenty-five year loan. The average interest rate charged for a conventional mortgage loan recently rose to approximately 17½ percent. High interest rates, though, are not the sole deterring factor in the purchase of a home. With consumers saving less because of current economic trends it is apparent the down payment on a house, not the interest rate, has become the first great obstacle to home ownership. Fortunately veterans enjoy an alternative to the 20 percent minimum down payment requirement of the conventional mortgage lender through utilizing their VA-guaranteed mortgage benefits.

The VFW, however, believes that certain Administration proposals may have an adverse impact on this program. In their FY 83 budget proposal submitted to the Congress, the Administration is proposing a fee equal to one-half of one percent of the loan amount to offset the processing costs of VA-guaranteed loans. The average cost to the veterans for this fee is estimated to be about $285. The VFW views this proposal as discriminatory inasmuch as it is directed toward the VA Home Loan Guaranty Program and not all federally sponsored loan or loan guaranty programs. We also question the need for the amount of estimated revenues derived from this proposal. The most recent figures available to us indicate the cost of administering the VA Home Loan Guaranty Program is less than $50 million annually. The Administration, by imposing this fee, anticipates annual revenues of approximately $95 million; generating an inappropriate "profit" of almost 100 percent over its costs. In addition, the fees would be deposited in the United States Treasury as miscellaneous receipts, not to the VA or a revolving fund from which the VA could draw. Finally, we question why the user-fee would be calculated on the full loan amount rather than the portion the VA would guarantee.

In the invitation to appear before this Subcommittee it was suggested discussion be directed toward Administration proposals relative to federal housing programs and their effect, if any, on the VA Home Loan Program. Mr. Chairman, the Administration is also recommending to reduce the ceiling on the Government

National Mortgage Association ("Ginny Mae") program by nearly 50 percent, from a FY 82 level of $68.25 billion to a FY 83 level of $38.4 billion. Should this reduction become a reality, the VA Home Loan Guaranty Program would be severely compromised. In fact, should the anticipated recovery of the housing industry be stronger than expected, this ceiling could be reached before the end of the fiscal year, resulting in curtailment of VA-guaranteed loans. It is our understanding that imposing a higher level than the Administration requested will not result in increased outlays since the Ginny Mae program is self supporting. With the knowledge that approximately 70 percent of all VA-guaranteed loans are purchased by Ginny Mae, it should be readily apparent the consequences this Administration proposal could generate.

In closing, Mr. Chairman, the present economic climate and the high level of unemployment this country is experiencing would suggest that the loan assignment practices of the VA be made as understanding and compassionate toward veterans as possible. Every effort should be made in helping the veteran remain in his home and avoid the far reaching social and financial effects of foreclosure. The VA on numerous occasions has indicated its commitment to the use of loan assignments, and we appreciate the VA's role in such servicing endeavors. It may be desirable to consider that the VA be required, within 30 days following notice from the note holder of intention to foreclose, to investigate the desirability of taking an assignment of the loan. Such a requirement would leave the Administrator free to allow foreclosure, but at the same time bring about careful consideration of the facts relating to the veterans current and future financial ability to meet his loan commitment.

Mr. Chairman, the VFW appreciates yours and this Subcommittee's continued commitment to programs benefiting our Nation's veterans.

This concludes my testimony, and I would be happy to respond to questions you may have at this time.

PREPARED STATEMENT OF RICHARD W. JOHNSON, JR., NATIONAL LEGISLATIVE DIRECTOR, THE NON-COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

The Non Commissioned Officers Association of the USA (NCOA) appreciates this opportunity to comment on H.R. 5710, a proposal to charge a "funding fee" for veterans home loan guarantees on loans closed after October 1, 1982. NCOA and its more than 250,000 members are deeply interested in the proposal.

H.R. 5710 is a measure recommended by the Administration in concert with its budget and legislative program for fiscal year 1983. It will, if passed, allow the VA to collect a one-half of one percent "funding fee" for home loan guarantees given after October 1, 1982. According to the VA, such a fee is not without precedent and it will save the VA $94.5 million in FY '83. We believe the VA is half right.

The program is not without precedent. Indeed, authority to collect a funding fee existed until 1970. However, the VA is not saving anything. Instead, they propose to raise revenue by charging veterans for services. Next year the VA will probably suggest user fees for nursing homes and hospitals. And, before long we will have withholding from compensation and DIC checks to fund the administration of these programs.

Perhaps this is a little dramatic. Nevertheless, NCOA is appalled at the suggestion of reinstating the loan guaranty funding fee, particularly at this time. NCOA is unalterably opposed to these fees and H.R. 5710.

In 1981 new housing starts plunged below 1.1 million for the first time since World War II. In 1982 housing starts are not expected to exceed 900,000. Housing starts have been driven down by a drop in demand. The drop in demand is caused by the recession and high interest rates. As a result, unemployment in the construction industry is 18.7 percent. More than 95% of all Americans are priced out of the housing market. Most veterans are no exception.

To veterans who can afford to buy, this means higher home prices, larger home loans, higher interest rates, and larger cash payments at closing.

Look first at home prices. During the past two years, home prices have risen over 25%. Average G.I. loans for a primary home or condominium rose from $44,505 in 1979 to $50,511 in 1980. Average loans today are $64,635.00. More damaging to the veteran homebuyer than the increase in home prices is the increase in interest rates. The VA loan guaranty rate has changed no less than a dozen times in the past two years. As a result, veterans pay more and fewer can afford to buy.

Two years ago, at a VA interest rate of 10%, a veteran could buy a $69,000 home for $605.52 monthly in principal and interest. The same loan today (at 15.5%) will cost $900.12 monthly--a 48% increase in less than two years. The difference over the life of the loan is $106,056.00. Two weeks ago at the 16.5% interest rate then in effect the monthly payment on the same home would be $955.75 for a difference of $120,082.80.

The fixed rate system under which the VA operates is making the loan guaranty program even less competitive than conventional loans for those who can afford down payments. Builders and sellers are paying large discounts to reduce home loan rates for many buyers. In some areas, real estate bonds are being used to make cheap mortgage money available. Yet the veteran depends on the VA to remain competitive in the housing market.

As a result, we have a housing industry that is in deep economic trouble; a veteran in a market where home prices are very high; and interest rates that are both high and unstable.

To help the veteran through this mess we are considering raising the price of a new home even more. Not a whole lot more, but enough so that many who are tetering on the brink will no longer be able to buy. And the veteran may be duped into paying these fees.

Private Mortgage Insurance (PMI) has been available for several years to persons who are only marginally qualified for a loan. According to Fortune magazine, half of all insured loans are privately insured. PMI is very similar to the VA loan guaranty program in that it guarantees the lender full recovery if there is a default of the loan. In the Washington area prices vary from 3/8 of one percent of the loan value plus $100 to 3/4 of one percent plus $385. PMI lenders frequently will finance the full purchase price of a home often at interest rates lower than the VA.

In some areas it is likely that veterans will be better served by conventional loans with PMI, but many will pay the VA "funding fee" simply because the program has built years of credibility as being best. Indeed, many veterans already use VA home loans to their own financial disadvantage through bad counsel or their own inexperience.

NCOA commends the Committee for recognizing the service disabled veteran as a special group to be considered for exemption from funding fees. Presumably, the committee also intends to exempt the surviving spouse of a deceased veteran. Still another group of veterans deserves special recognition. The in-service veteran.

In-service members who have completed more than 180 days of active duty are eligible for a home loan guaranty. Several years ago, this committee recognized the unique need of active service members when it allowed veterans to re-use loan guarantees when the original loan is satisfied. This allowed servicemembers who are transferred frequently to benefit from the program.

NCOA opposes the imposition of any funding fee but if the fee is inevitable, we ask the committee to exempt servicemembers along with disabled veterans. Members of the armed forces are still financially pressed. Many move frequently and none are adequately compensated for their expenses. Unlike civilian federal employees, servicemembers are not reimbursed for losses on the sale of a home nor the expenses of buying and selling a home (i.e: real estate broker fees, etc.). The loss is compounded by interest rates on new homes which will undoubtedly be higher.

While NCOA appreciates the consideration the committee has already given to this issue, we do not believe that change is inevitable. We understand the budget choices the committee has made. The committee accepted a little less than half the Presidential budget recommendation for FY 1983 and this committee has tried to protect the veteran with service connected disabilities. However, NCOA hopes the committee will retreat from this budget decision.

The NCOA strongly supports the President and his efforts to cut government spending where such cuts are appropriate. However, there is no need or justification to cut the VA budget by collecting user fees from veterans.

The Washington Post reported last week that General Electric would avoid paying more than $100 million in taxes because of laws passed in this Congress. In the next few weeks this Congress will take up and is expected to pass legislation to make $12 billion available for 9½% interest home loans to some families. At the same time the President suggests we shoot the veteran in the foot, crippling him and the VA loan guaranty program. We are even more appalled that no other loan program in government has been cited for similar treatment.

In summary, we have outlined various problems in the housing industry including; drop in demand, high prices, high interest rates, and high unemployment. We have discussed the veterans position; the difference in cost of similar houses, the availability of alternative financing and the unique needs of active duty servicemembers. We have pointed out that no fees have been proposed on other programs such as FHA loans.

Mr. Chairman, NCOA does not believe this is an appropriate time to change the home loan guaranty program. Hopefully, the committee will explore alternatives to the proposal.

Thank you.

Statement of Earl B. Hadlow, Vice President, Jacksonville, Fla., Chamber of Commerce

My name is Earl B. Hadlow and I am appearing before you today in my capacity as Vice President of the Jacksonville Chamber of Commerce. I would like to take this opportunity to officially express the Chamber's strong opposition to the proposed relocation of the VA Loan Guarantee Office from Jacksonville to St. Petersburg.

The VA Loan Guarantee Office has operated in Jacksonville since 1946 and has done so successfully. It has normally been ranked in the top 10 percent of similar offices nationally in terms of productivity and effectiveness. The current staff of approximately 125 employees has many years of experience in the lending field. The loss of many of these employees, who will be unable to relocate financially, is certain to have a detrimental effect on the VA's ability to maintain past service standards. The Chamber questions whether the loss of these trained individuals was taken into full consideration in the cost savings analysis being used to justify the move. We also wonder whether the accepted figure of $35,000 to $40,000 per employee relocated was used in identifying the costs associated with the transfer of personnel. This figure was determined during a recent study by the Merrill Lynch Relocation Service.

Jacksonville is the home office for five out of the top ten mortgage banking firms in Florida—SWD, Charter Mortgage, Florida Title and Mortgage, Barnett Mortgage and Tucker Brothers.

The proposed relocation will adversely affect their ability to service new and existing VA guaranteed loans. It should also be kept in mind that the proximity of the VA Office, the FHA State Office and these large mortgage banking firms, all in Jacksonville, insures that veterans, and they will be the real losers from such a move, are receiving the most expeditious service possible.

The large concentration of military bases in the Jacksonville area is another factor justifying the retention of the office in Jacksonville. There are currently over 40,000 active duty military personnel and federal civilian workers associated with the three local bases. A fourth major installation, the Kings Bay Trident Submarine Base, is under development and projections show that this facility will bring a new influx of 25,000 to 30,000 people to our area by 1990. This build-up will occur at the same time that Naval Station Mayport is anticipating an increase of 5,000 to 10,000 in its personnel strength.

In conclusion, the possible relocation of the VA Loan Guarantee Office represents a loss of over $2.5 million alone in terms of the employee and dependent salaries involved. At a time of economic downturn, it becomes even more important to our business community to do everything possible to oppose such a loss. We respectfully request that Senator Hawkins join with Senator Lawton Chiles, Representative Charles Bennett and Representative William Chappell to block this move. The continuing efforts of certain groups to bring about this relocation are well documented and today they are no more justified than they have been in the past. Thank you for giving this request consideration.

Prepared Statement of Charles E. Joeckel, Jr., Deputy National Legislative Director, Disabled American Veterans

Mr. Chairman and Members of the Subcommittee; the Disabled American Veterans appreciates this opportunity to appear here today to discuss the Veterans Administration Home Loan Guaranty Program.

As you know, Mr. Chairman, on March 1, 1982 the full Committee on Veterans Affairs, by roll call vote, accepted several cost-savings proposals which were incorporated as part of the Committee's fiscal year 1983 Veterans Administration Funding Recommendations made to the House Budget Committee. One of these proposed recommendations would place a "user's fee" upon the VA Home Loan Guaranty Program.

As it is highly likely that the House Budget Committee will accept this recommendation, it is, therefore, the task of this Committee to determine (1) how the "user's fee" should be applied; (2) the amount of the fee to be levied; and (3) which veterans will be subject to the new fee.

Our testimony today will address these issues, as well as make other recommendations relative to the use of these funds should the Congress adopt the proposal.

Mr. Chairman, the VA Home Loan Guaranty and Mobile Home Programs have been a good investment in America and have helped millions of veterans and their families to become homeowners. The principal purpose of these programs is to assist eligible veterans to obtain credit for the purchase or construction of homes to be occupied by themselves and their families.

This assistance normally consists of the guarantee or insurance of loans made by private lenders and the credit of the government of the United States is used as an inducement for mortgagers to make loans to veterans on relatively favorable terms. Under current law, the maximum amount of a loan guarantee may not exceed $27,500 or 60 percent of the loan in the case of a conventional home mortgage or $20,000 for the purchase of a mobile home and lot.

As I stated earlier, Mr. Chairman, the DAV believes that the VA Home Loan Guaranty Programs have been a good investment in America—broadening the tax base in virtually every community in the nation. We do not favor the enactment of legislation which would assess a fee upon veterans for the use of, what we view as, earned benefits. Further, we believe the assessment of such a fee to be recessive in nature and places an unneeded burden on an already decrepit housing market.

Nevertheless, we recognize the federal spending dilemma which confronts us today and realize that the members and staff of the Veterans Affairs Committees have done a magnificent job in protecting veterans' programs from even further spending reductions. With these thoughts in mind. I will now address the Administration's proposed "user's fee."

Yow will recall, Mr. Chairman, that in their recommendations to the Budget Committee, the full Committee recommended the enactment of legislation which would assess a 0.05 percent fee on new loans guaranteed by the Veterans Administration. By providing a full exemption from the fee for all service-connected disabled veterans, the proposal would save—in terms of receipts to the federal government—$89.7 million. In addition, the Committee's recommendation would, unlike the Administration's proposal, make these receipts available to the Veterans Administration Home Loan Guaranty Program.

The Administration's proposal, outlined in its Fiscal Year 1983 budget request, on the other hand, proposes to save $95.4 million by applying the 0.05 percent fee across-the-board to all veterans and the receipts would be returned to the General Fund of the United States Treasury.

Accordingly, the Disabled American Veterans reluctantly favors the enactment of legislation proposed by the House Veterans Affairs Committee. We do agree with the Administration's statement contained in its rational for enacting such a user's fee (as noted in the OMB document entitled: "Major Themes and Additional Budget Details" that service-connected disabled veterans are a "select group" indeed. However, we believe that it is unreasonable "to expect that this group bear a portion of the cost of providing the (housing) benefit."

Mr. Chairman, the DAV is very concerned over how this provision will impact upon younger veterans, particularly veterans of the Vietnam Era. We, therefore, strongly urge the Committee to closely monitor the impact of such provision should it be enacted into law.

Mr. Chairman, in connection with the Loan Guaranty Program of the Veterans Administration, there is one other issue I wish to call to your attention. As you know, last year the Congress passed legislation initiated by this Committee which established a Small Business Loan Program for service-connected veterans rated by the Veterans Administration as 30 percent or more disabled and for veterans of the Vietnam Era. These provisions are embodied in Public Law 97-72.

We note, however, that no funding is provided in the Administration's VA budget request for fiscal year 1983 to fund Section 302 of the new law which authorizes program funding of $25 million in the first Fiscal Year. We also note that the receipts from the assessment of a "user's fee"—whether provided directly to the VA or to the U.S. Treasury—would "help defray administrative and operating costs" of the VA Loan Guaranty Program.

According to VA testimony before the Veterans Affairs Committees, the present operating costs of the Loan Guaranty Program are approximately $48 million annually. If the House Veterans Affairs Committee "user's fee" recommendation is enacted, the VA is projected to collect $41.7 million more than is needed to administer the VA Home Loan Guaranty Program.

We suggest utilizing these excess funds to initiate and administer the Small Business Loan Provisions contained in Section 302 of Public Law 97-72. Accordingly, when the Committee reports legislation establishing a "user's fee" on the Home Loan Guaranty Program, we respectfully request that you consider and approve, as part of the measure, provisions directing to the Small Business Loan Program any excess funds collected beyond that which is needed to operate the VA Home Loan Guaranty Program.

This concludes my statement, Mr. Chairman, and I wish to thank you and the members of the Subcommittee for allowing us this opportunity to present our views on these important subjects.

PREPARED STATEMENT OF JAMES E. MURRAY, PRESIDENT, FEDERAL NATIONAL MORTGAGE ASSOCIATION

Pursuant to discussions had between our respective staffs, I am pleased to submit the following comments for inclusion in the record of the hearing, held by your Subcommittee on March 23, to review the Veterans Home Loan Guaranty Program.

As you know from Mr. Maxwell's correspondence with you last year, FNMA was experiencing an unacceptably high volume of losses on VA foreclosures, which losses we attributed to deficiencies in VA appraisals. We are pleased to report that, after discussions with officials of the VA, we were able to resolve the problem. Since mid-1981, FNMA's losses on the foreclosure of VA mortgages have been steadily declining. We are optimistic that this improvement will continue.

Regarding VA activity in general, the level of new VA mortgages was relatively low during the past year, due to persistently high interest rates in the mortgage market. Most veterans were simply unable to afford a home mortgage loan. To help meet this problem, the graduated payment mortgage (GPM) was developed. Although the new VA GPM program has barely had time to take hold, we believe that in time the GPM loan will be extremely helpful to the lower-income, upwardly-mobile veteran borrower. You may be sure that FNMA will continue to provide a secondary market to enhance the availability of these affordable mortgages.

As Mr. Maxwell did in his letter to you of April 9, 1981, when commenting on H.R. 2038 and H.R. 2039, I recommend strongly that the Subcommittee give its attention, as soon as possible, to the authorization of a VA guaranteed mortgage with an adjustable rate of interest. The problems of thrift institutions and of FNMA to which I referred at that time, i.e., a large volume of low-yielding, fixed-rate, long-term mortgage assets matched by high-cost, short-term liabilities, is worse today than it was in 1981. The adjustable rate mortgage is an important aid to the solution of this problem.

During 1981 FNMA launched an adjustable rate conventional mortgage program which has been very well received by lenders and borrowers, principally because it has helped make funds available and affordable. We are confident that a popular and effective adjustable rate program can be formulated for VA home loans, and we would be pleased to work with your Subcommittee toward this end.

PREPARED STATEMENT OF ROBERT D. BANNISTER, SENIOR STAFF VICE PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

I am aware that the VA Committee is holding hearings concerning the FY '83 VA budget. On behalf of the National Association of Home Builders, I have submitted our views opposing the proposed VA "user fee" and expressed our concerns on the severe cutbacks in the Government National Mortgage Association's Mortgage Backed Security Program which impacts VA home loans.

We are opposed to enactment of the VA "user fee" for the following reasons:

1. *Affordability.*—At a time when high interest rates ae pricing the majority of Americans out of the homeownership market, including our nation's veterans, we do not believe that additional costs should be imposed on already hard-pressed potential home buyers. In addition, the legislation as proposed by the VA requires that the user fee be paid at the time of settlement rather than amortized with the loan amount. This will defeat the no down payment feature of the home loan program and make it more difficult for veterans to meet the closing costs involved in home purchase.

2. *Entitlement program.*—The VA Home Loan Guarantee Program is an entitlement for veterans who have so ably served our country. Imposing a fee on its use is not in the tradition of the program. Even the fee imposed for post-Korean war veterans was rescinded in 1970. In addition, that fee was not as stringent as the present proposal as it could be amortized rather than paid up front and the money went into the loan guarantee revolving fund rather than into general treasury revenues.

3. *Revolving funds.*—While it is stated that as "proprietary" receipts, the user fee will be credited as offsets to the VA budget, it is really another federal government revenue enhancement measure. The VA loan guarantee revolving fund is self sustaining and any monies collected from the loan guarantee program should revert to this fund. It is even more important now in times of economic downturn.

There has been some consideration given to putting a limit on the amount that the one-half percent fee would apply. Limiting the amount of the fee to one percent of the loan guarantee amount could be a reasonable solution to the unlimited fee approach. In this manner, the fee at today's entitlement limit of $27,500 could not be over $75.

In summary, the National Association of Homebuilders is opposed to the implementation of a user fee on the loan guarantee program because it is an entitlement program and because of affordability problems inherent in the housing market today. Millions of Americans have been priced out of the market and the housing production is at an all time low. Economic conditions do not warrant imposing a fee at this time.

If such a fee is imposed, however, it should go into the loan guarantee revolving fund rather than general Treasury revenues, allowance should be made to amortize the fee rather than enact up front payment, and the amount on which the fee applies should be limited to prevent unduly high charges.

I would also like to take this opportunity to express our opposition to the cutbacks in the Government National Mortgage Association's (GNMA) Mortgage Backed Security Program. GNMA purchases over 70 percent of the VA guaranteed loans so the limitations on GNMA would seriously hamper the VA loan guarantee program. VA guaranteed and FHA insured mortgages accounted for 200,000 or 18 percent of total housing starts in 1981. Any restriction on their capacity to operate as demand programs would severely impact potential first-time buyers and veterans who are either unable to get a loan or who are priced out of the market. Reducing the level of VA and FHA activity by limiting their purchases through GNMA in the secondary market could have a detrimental impact on the housing industry.

Thank you for allowing us to present our views.

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